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The Agricultural Co-operative Business Structure in Context: A Western Australian Study

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BEd (*Flinders*), GradDipBusAdmin (*Curtin*),
MBus (*Curtin*)

*A thesis submitted in fulfilment of the requirements
for the degree of
Doctor of Philosophy (Interdisciplinary)*

*Faculty of Education and Arts
Edith Cowan University, Western Australia*

2006

To my father

Alan William Roberts

22-11-1929 ~ 25-12-2005

USE OF THESIS

The Use of Thesis statement is not included in this version of the thesis.

ABSTRACT

Agricultural co-operative businesses are the focus of considerable academic research overseas, particularly from the perspective of agricultural economics. Research on Australian agricultural co-operatives, however, is very limited. This exploratory study investigates agricultural co-operatives at two inter-related levels. Firstly, the thesis examines the broader political economy shaping the agricultural co-operative sector, specifically policy and institutional arrangements affecting agricultural co-operatives. Secondly, the thesis considers how this external world influences the internal behaviour of the agricultural co-operative business. The study adopts a qualitative research methodology, principally using the case study method. Over 50 in-depth interviews were conducted with actors associated with the agricultural co-operative sector, including the United Farmers Co-operative Company (UFCC).

The thesis argues that neoliberal influenced restructuring of the agricultural industry has, in the last decade and a half, stimulated a renewed interest in the agricultural co-operative model in Western Australia. The research also identifies that, paradoxically, neoliberalism sets limits on the evolution of commercially successful agricultural co-operatives. Neoclassical economic theory, based on notions of individualism and profit maximisation, undermines the collective and democratic nature of co-operative principles, fundamental to the viability of the co-operative business structure. Furthermore, the co-operative business model is frequently misconstrued or misunderstood by powerful gate keepers who, influenced by neoclassical economic theory, privilege the corporate business structure over the co-operative model. These factors potentially threaten the standing of the co-operative model in the market place and therefore diminish the benefits of the co-operative model for the agricultural industry.

The inter-relatedness of Westralian Farmers Co-operative and the UFCC illustrates this double effect of neoliberalism on the agricultural co-operative model. For over six decades, the Westralian Farmers Co-operative was the archetypal expression of the co-operative movement in Western Australia. Yet, over time,

Westralian Farmers Co-operative evolved into a corporation, Wesfarmers. This conversion process set up the conditions for market failure that triggered the formation of the UFCC. However, the commercial success of Wesfarmers as a corporation has reinforced a widely held perception that a co-operative is an immature business structure that, if successful, inexorably progresses to the mature status of a corporate structure. In recent years, this belief has influenced some actors within the UFCC Board and management to consider strategies designed to emulate the success story of Wesfarmers, thereby potentially undermining the co-operative basis of the UFCC.

The UFCC case study illustrates the theoretical and applied strengths of the agricultural co-operative business structure in a period of agricultural restructuring. One of the conclusions of the thesis is that the agricultural co-operative model is particularly suited to a market economy to moderate the excesses of the free market as well as take advantage of new opportunities arising from restructuring. The thesis also concludes that notions based on neoliberalism challenge the philosophical orientation of maturing agricultural co-operatives. The thesis concludes that the agricultural co-operative model has much to offer the agricultural industry and that the need for agricultural co-operatives is as evident in contemporary times as any other period in the agricultural industry.

This thesis points to several areas for additional research. The first is for the field of agricultural industry public policy development. Identifying the key factors associated with successful agricultural co-operatives in Australia will provide directions for government agencies to develop public policy to grasp new opportunities within the agricultural supply chain and concurrently address the downside of industry deregulation. A second area of research is the comparison of the attitudes and motivations of agricultural co-operative members with farmers who choose not to join these organisations. This research will assist policy makers and the peak body to develop strategies to build the Western Australian agricultural co-operative sector. The third area is in the field of rural community economic development. Research findings from this thesis suggest that agricultural co-operatives can have a positive impact on the social and economic well-being of rural communities adjusting to the effects of significant rural and agricultural industry restructuring.

DECLARATION

I certify that this thesis does not, to the best of my knowledge and belief:

- i. incorporate without acknowledgment any material previously submitted for a degree or diploma in any institution of higher education;*
- ii. contain any material previously published or written by another person except where due reference is made in the text; or*
- iii. Contain any defamatory material.*

I also grant permission for the Library at Edith Cowan University to make duplicate copies of my thesis as required.

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I wish to express my deepest gratitude to my supervisors, who have been the greatest contributors in bringing this thesis to its completion. My retired principal supervisor, Emeritus Professor Alan Black, offered me continuous support and personal encouragement to complete this thesis. I am also indebted to my supervisor Dr John Duff for his theoretical insights to my evolving understanding of issues surrounding agricultural co-operatives. Dr Matthew Tonts, in a voluntary capacity, brought a deep and valued knowledge of rural issues and agricultural restructuring in Western Australia to my supervisor team. Lastly, Dr Darren Halpin, during the early phase of this research, guided me in understanding the broader theoretical issues associated with the role of agricultural industry associations.

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ACRONYMS AND ABBREVIATIONS

| | |
|---------|---|
| AAC | Australian Association of Co-operatives |
| ABARE | Australian Bureau of Agricultural and Resource Economics |
| ABS | Australian Bureau of Statistics |
| ACCORD | Australian Centre for Co-operative Research and Development |
| AFFA | Department of Agriculture, Fisheries and Forestry - Australia |
| AICD | Australian Institute of Company Directors |
| AIM | Australian Institute of Management |
| AQIS | Australian Quarantine Inspection Services |
| ASIC | Australian Securities and Investment Commission |
| ASX | Australian Stock Exchange |
| AWB | Australian Wheat Board |
| CAP | Common Agricultural Policy |
| CBH | Co-operative Bulk Handling |
| CCA | Co-operative Council of Australia Inc |
| CCI(WA) | Chamber of Commerce and Industry of Western Australia |
| CEO | Chief Executive Officer |
| CFNSW | Co-operative Federation of New South Wales |
| CFV | Co-operative Federation of Victoria |
| CFWA | Co-operative Federation of Western Australia |
| DOCEP | Department of Consumer and Employment Protection |
| DRDC | Dairy Research and Development Corporation |
| DRU | Delivery Right Unit (Challenge Dairy Co-operative) |
| FarmBIS | Farm Business Improvement Scheme |
| GATT | General Agreement on Tariffs and Trade |
| ICA | International Co-operative Alliance |
| ILO | International Labour Office |
| IOF | Investor Owned Firm |
| NCC | National Competition Council |
| NCP | National Competition Policy |
| NFF | National Farmers Federation |
| NGC | New Generation Co-operative |
| NIE | New Institutional Economics |
| PGA | Pastoralists and Graziers Association |
| RAS | Rural Adjustment Scheme |
| RIRDC | Rural Industries Research and Development Corporation |
| SMA | Statutory Marketing Authority |
| SMB | Statutory Marketing Board |
| TPA | <i>Trade Practices Act 1974</i> (Commonwealth) |
| UFCC | United Farmers Co-operative Company |
| USDA | United States Department of Agriculture |
| WAFF | Western Australian Farmers' Federation |
| WAMMCO | Western Australian Meat Marketing Co-operative |
| WTO | World Trade Organisation |

CHAPTER ONE

The Agricultural Co-operative Business Structure in Western Australia

A Mini-Revival in Agricultural Co-operatives?

Western Australia experienced a notable upsurge in co-operative business registrations in the last few years of the 20th century and into the new millennium. Of the estimated 55 ‘active’¹ co-operatives in Western Australia in that period, over 30 were formed after 1996 (Booth, 2004). The majority of these newly established co-operatives were regionally based with a direct relationship with the agricultural industry.

Several factors contributed to this new wave of agricultural and regionally based co-operative business ventures. A significant element in the co-operative revival in recent years is the United Farmers Co-operative Company (UFCC), formed in the early 1990s. It has evolved as the most significant agricultural co-operative success story in Western Australia since the conversion of the Westralian Farmers Co-operative into a publicly listed corporation, Wesfarmers, in the mid 1980s. UFCC’s success and rapid membership growth to over 3000 members, approximately half of Western Australia’s grain growers (Madden, 2003b), is also a significant factor contributing to the subsequent mini-boom of co-operative registrations identified in the late 1990s.

Industry deregulation is clearly another key theme in recent co-operative formation. Following the dismantling of legislation underpinning the Western Australian Meat Marketing Corporation (WAMMCO), which was a Statutory

¹ ‘Active’ co-operatives are defined as co-operatives that are registered with the regulatory body, the Western Australian Department of Consumer and Employment Protection and are actively trading.

Marketing Authority (SMA),² a co-operative business structure was created to assume the activities of the former SMA (Clarke, 1999). The co-operative model was recommended for other SMAs facing review, such as those involved in the marketing of potatoes and eggs (Interviewee 686, 2003; Potato Marketing Corporation of Western Australia, 2003; Western Australian Department of Agriculture, 2002a). Farmers adopted the co-operative model as a consequence of government initiated deregulation of several regionally based water irrigation statutory bodies (Booth, 2004; Roberts & Henneveld, n.d.).

The Australian Wheat Board (AWB), a former national statutory marketing body, underwent a highly publicised restructuring in which the co-operative model was discussed as an alternative to a publicly listed company at a number of well attended farmer meetings throughout Western Australia (Booth, 2004; Interviewee 660, 2002). While the AWB did not pursue the co-operative business model, the farmer meetings provided Western Australian growers with an opportunity to understand the co-operative business structure.³

Dairy industry deregulation in 2001 stimulated the birth of the Challenge Dairy Co-operative. Challenge Dairy Co-operative was the first newly established dairy co-operative in Western Australia for several decades (Booth, 2004; Interviewee 652, 2003; Interviewee 679, 2002). These examples demonstrate that the deregulation of SMAs has positively influenced the uptake of the co-operative model in these agricultural sectors. However, as the National Competition Policy process to review SMAs in Western Australia is almost complete, this avenue of potential co-operative development is now nearly exhausted.

Debate about the appropriateness of the co-operative structure as a long-term strategy is another theme in the mini-revival. Co-operative Bulk Handling (CBH),

2 The Productivity Commission (2000) describes SMAs as bodies established by legislation that have monopoly selling powers which may include both domestic and export sales of an agricultural commodity, although some SMAs are restricted to export sales. The SMA also referred to as single-desk marketer. The potential impact of deregulating SMAs on the agricultural co-operative sector is discussed in detail in Chapter Six.

3 In 1998, the business activities of the Australian Wheat Board were corporatised and transferred to a new corporation, AWB Limited, and a number of subsidiaries; AWB International, AWB Australia, and AWB Finance. In 1999, AWB Limited, privatised and wheat growers became the new shareholders. In August 2001, AWB Limited listed on the Australian Stock Exchange. Growers retain about 80 per cent of AWB Limited's share base. Under the Commonwealth Wheat Marketing Act 1989, the AWBI has the authority to export bulk shipments of wheat from Australia, commonly referred to as the 'single desk' (Australian Wheat Board, n.d.).

with around 7000 grain industry members, raised the profile of the co-operative model when it unsuccessfully conducted a campaign in the year 2000 to convert from an agricultural co-operative business structure to a publicly listed company (Wasley, 2003), with the estimated financial windfall to members of \$100,000 each (Bolt, 2004). Rumblings among some grains industry farmers, confirmed by comments from a retiring chairman that CBH was still considering this option (Slater, 2004), has kept debate alive among its membership and in the rural media about the merits or otherwise of the co-operative structure (Booth, 2004; Interviewee 655, 2003). The CBH Board finally acknowledged member disquiet about a possible restructure and confirmed that it would remain a co-operative (Bolt, 2005b). Member concerns with corporatisation related to the loss of farmer control, the likelihood that the new corporation would focus on profits rather than providing a benefit to members via high quality storage and handling network for grain and foregoing tax exemptions for agricultural co-operatives under the Commonwealth *Income Tax Assessment Act 1936* (Bolt, 2006b). The outcome of the CBH exploration of alternative business structures has been a reaffirmation of the merits the agricultural co-operative model in the contemporary agricultural industry.

Institutional responses are also evident in stimulating the new groundswell of agricultural co-operatives. The activities of the Western Australian Department of Agriculture are part of this institutional involvement. The Department initiated and financially contributed to several international study tours of agricultural co-operatives in the late 1990s. Scores of Western Australian farmers, agribusiness and co-operative sector actors⁴ participated in New Generation Co-operative (NGC)⁵ study tours in the United States and other international agricultural co-operative study tours, developing their knowledge of co-operative business structures. The Western Australian Department of Agriculture also invited a United States academic, Professor Michael Cook, who had a special interest in the NGC model, together with

⁴ The generic term 'co-operative actor/s' is adopted throughout the thesis to refer collectively to people (either individually or as a group) who have direct knowledge of the co-operative structure or exert influence over its viability in Western Australia. Many of these actors were interviewed for this thesis.

⁵ The NGC model is a hybrid between the traditional agricultural co-operative model and the Investor Owned Firm (IOF) corporate model. It focuses on value-added processing and only accepts a predetermined amount of product from its members (Stefanson, Fulton, & Harris, 1995). See Appendix 5 for further information. The United States Department of Agriculture report (2002, p 25ff) also summarises the similarities and differences between the traditional agricultural co-operative model and the NGC model.

the CEO of an American NGC, to Western Australia to deliver several seminars about NGCs. One outcome of the study tours and seminars was the initiative of the Western Australian Department of Agriculture, in conjunction with Edith Cowan University, to obtain funding for this PhD research project on agricultural co-operatives. The Department also assisted one of its officers to study a PhD on agricultural co-operative economics in the United States, under the supervision of Professor Cook.⁶

Further, some officers within the Western Australian Department of Agriculture have been actively encouraging the adoption by farmers of the co-operative structure as a viable strategy in response to agricultural restructuring. These individuals have been pressing for several years to enable Western Australian agricultural co-operatives to access a special Commonwealth government provision for agricultural co-operative loans under Section 120(1)(c) in the *Income Tax Assessment Act 1936*. In 2004, as a result of a Western Australian government review into the impact of dairy industry deregulation on dairy farmers, a mechanism was proposed and accepted by the government (Government of Western Australia, 2004). Officers from the Department have subsequently promoted this facility to agricultural co-operatives, developing the knowledge base of farmers about the benefits of the agricultural co-operative model in a contemporary agricultural industry setting. Furthermore, the review into the viability of the Western Australian dairy industry recommended that the Western Australian government conduct an analysis of the role of co-operatives in addressing market failure issues in the dairy industry. These activities suggest the beginnings of an institutional response to promote the benefits of and stimulate the uptake of the agricultural co-operative model by farmers.

The decision of the peak body, the Co-operative Federation of Western Australia, the CFWA, to employ a full-time Executive Officer in 1996 is another institutional element contributing to the increased uptake of the co-operative structure.⁷ This event coincided with the spurt of new co-operative formation. A knowledgeable and accessible peak body employee in this period was a significant resource for these embryonic co-operatives during their vulnerable start-up phases.

⁶ See Plunkett (2005).

⁷ Chapter Five examines the role of the CFWA in the agricultural co-operative sector. Prior to the appointment of the Executive Officer in a full-time capacity, for several decades the CFWA executive support was outsourced on a part-time basis to an accounting firm.

Furthermore, individuals seeking co-operative information and advice, along with relevant government agencies responding to co-operative initiatives, were able to contact the CFWA Executive Officer who had the expertise and time to address these queries.⁸

An additional institutional aspect of the recent revival of interest in co-operatives has been the status of the long anticipated new Western Australian co-operative legislation. The drive for new legislation is part of an agreement by all Australian State governments to introduce co-operative legislation that is essentially the same in each jurisdiction (National Co-op Update, 2000; New South Wales Government Information Service, 1997). The issue has been bubbling along for several years in Western Australia without resolution, although some progress was anticipated in 2006. The lack of updated Western Australian co-operative legislation is reaching a critical phase and the need to finalise this issue is again contributing to the awareness of the co-operative structure by actors in the agricultural industry.

Lastly, these multiple triggers occurred within a relatively concentrated time span and predominantly in a specific geographic area and sector, that is, in rural Western Australia and the agricultural industry. There is a convergence of chance in these events. If they had occurred over a longer period, or in an unrelated manner or across different industries, then their impact would not have been as evident. These separate events have symbiotically and mutually reinforced each other and, in the process, sustained existing or developed new industry knowledge about agricultural co-operatives as a legitimate business structure for their particular circumstances.

This wave of agricultural co-operative development does not appear to be unique to Western Australia. Australia generally has experienced a quiet but persistent growth in co-operative activity over the last decade (Australian Centre for Co-operative Research and Development, n.d.-b). Nationally there are approximately 2,500 registered co-operatives and Western Australia has around 3 per cent of these (Australian Centre for Co-operative Research and Development, n.d.-b). Research suggests that during these past ten years or so, co-operatives have had an 81 per cent

⁸ Other factors outside of Western Australia may also have contributed to the CFWA role in the mini-revival. These include promoting the International Co-operative Alliance initiative of the www.coopdomain, the formation of the research centre, Australian Centre for Co-operative Research and Development (ACCORD) and the annual Monash University Agribusiness Co-operative Leadership and Governance Forums which commenced in 1998.

increase in turnover and almost 70 per cent increase in asset growth (Australian Centre for Co-operative Research and Development, n.d.-b). The CFWA estimates that the co-operative sector in Western Australia has an aggregate annual turnover of approximately \$2 billion. With a combined membership of around 50,000 members,⁹ many of whom operate their own businesses; co-operatives create direct employment for some 3,000 staff, lifting the total employment pool and annual turnover of entities linked to co-operatives many times over (Co-operative Federation of Western Australia, 2005a). Agricultural and regionally based co-operatives account for much of this activity.

Clearly, something worthy of note is occurring in the Western Australian agricultural co-operative sector. The agricultural co-operative sector, however, functions in a broader political and economic environment. Over the last three decades, Commonwealth and Western Australian governments have overtly implemented orthodox economic policies in a range of industry sectors. Agricultural public policy during this period has exhorted farmers to implement strategies and mechanisms based on neoclassical economic theory and concepts found within neoliberalism (Botteril, 2003; Lawrence, 1992; Lawrence & Hungerford, 1994). Notions of small government, privatisation, individualism, and the pursuit of profit via the company business structure, characterise these strategies. As a result, the agricultural industry has experienced significant restructuring with uneven outcomes for farmers and rural communities. Ironically, agricultural industry restructuring, with its focus on the individual, has partly contributed to a farmer response based on a collective business structure.

However, agricultural restructuring has a dual impact for the co-operative structure. While on one hand new agricultural and rural co-operatives are forming and registering as legal entities, on the other hand, there is evidence of internal grumblings in some agricultural co-operatives as they mature as organisations. Additionally, the impact of market forces has contributed to weakening the historical institutional arrangements surrounding the agricultural co-operative sector. Perhaps orthodox economic policies also have the potential to set limits on the recent achievements emanating from the mini-revival in the agricultural co-operative sector.

⁹ As members may belong to multiple co-operatives, this aggregate membership may overstate the total number of members.

The Research Problem

The mini-revival in Western Australia's co-operatives may not be a full-scale renaissance, but it does merit a reconsideration of the business structure by actors connected with the agricultural industry. A tension develops between strategies in agricultural industry public policy emanating from a neoclassical economic tradition that favours individualist approaches and the profit maximising corporate business model and the reality of a preference by many producers to adopt a collaborative business model. This tension is in essence the research problem. The key question that follows from this tension is:

How do contemporary agricultural co-operatives contend with a neoliberal influenced political and economic environment?

Several supplementary questions evolve from this question:

1. Why did the agricultural industry initially embrace the co-operative business structure over alternative business structures?
2. Why has the agricultural co-operative been such a persistent business structure in the agricultural industry?
3. Does the agricultural industry have unique characteristics that are particularly suited to the co-operative structure?
4. If so, have these unique qualities been overlooked in the development of agricultural policy based on orthodox economic theory to the detriment of the agricultural co-operative structure?
5. Are agricultural co-operatives an instrument that can assist in the preservation of family farming in a capitalist market economy?
6. Have contemporary institutional arrangements enhanced or impeded the development of the Western Australian agricultural co-operative sector?

These questions reinforce the paradox - the co-operative model continues to be employed by some actors in agriculture as a collective response to the broader economic policy framework that favours individualism and the corporate business structure. Ironically, the agricultural co-operative model is one of the strategies some farmers adopt in order to adapt to a restructured agriculture.

Methodology

Chapter Two reveals that the literature tends to favour an economic analysis of agricultural co-operatives and hence often employs quantitative research methodology. The methodology adopted in this thesis to explore the tension identified above adopts a qualitative research approach, essentially built around case studies. Qualitative research operates from a different platform and mindset to quantitative research approaches. It is embedded in understanding individuals' experiences of their worlds and how they make sense of these. Thus, an appreciation of an individual's perspective of the agricultural co-operative business structure and behaviour is an end in itself (Patton, 1990), whether or not one can generalize from these personal experiences to all agricultural co-operatives. Nevertheless, these individual reflections can provide insights that are pertinent to others involved in agricultural co-operatives in Western Australia.

A report by Patrie (1998) guided the orientation and methodology for this research. Patrie, in analysing why a particular form of agricultural co-operative, the NGC, evolved in North Dakota, identified that in addition to the internal behaviour and business strategies of an agricultural co-operative, a range of external factors can affect the viability of the co-operative business model.¹⁰ He acknowledged the role of a number of institutions in stimulating the uptake of the NGC model. These organisations included, for example, government funded business development agencies, banks and other financial institutions, management and agribusiness consultants, legal firms and accounting firms. Patrie also referred to the North Dakota State government in the development of a whole-of-State strategic plan, Vision 2000. He noted, too, the importance of other factors stimulating the formation of co-operatives, such as favourable legislation for co-operatives and low interest financial loans specifically for co-operative business start-ups, as well as a young generation of well-educated farmers who could evaluate the co-operative business structure on its economic and organisational merits (Patrie, 1998).

Similarly, this thesis does not merely focus on the internal dynamics of an individual agricultural co-operative case study. The methodology enables the various institutional sectors surrounding agricultural co-operatives to also be viewed as

¹⁰ Chapter Two explores other literature that comments on the interplay of external influences on the internal behaviour of the co-operative business.

specific ‘cases’. The following organisations or sectors formed the basis of the case studies:

- United Farmers Co-operative Company.
- The Western Australian government sector.
- The Western Australian co-operative movement.
- The professional management, financial, legal and tertiary education industries servicing the Western Australian agricultural co-operative sector and industry.

Over 55 interviews were conducted between 2002 and 2004 with representatives from these organisations or sectors. Interviews were generally for a minimum of one hour, but frequently longer. Individuals were very generous with their time and provided insights on various issues associated with the agricultural co-operative business structure. Some of these interviews comprised two or more sessions. Hand written notes of the interviews (rather than transcribed tape recordings) were drafted into documents over the next few days to ensure that as much information as possible was retained. The latter were then returned to those interviewees whose individual input was especially important to the thesis to enable them to comment, amend or supplement the notes if required.

These extensive interviews provide a narrative about the evolution and status of the Western Australian agricultural co-operative sector at the beginning of the 21st century. Collectively, they reveal the relationship between Western Australian farmers and the enduring nature of the agricultural co-operative business model, particularly within the broader context of Australian agricultural public policy and agricultural restructuring.

Three individuals are very significant in this research. These are Mr Rod Madden, inaugural chair of the United Farmers Co-operative Company (UFCC), Mr John Booth, Executive Officer of the Co-operative Federation of Western Australia (CFAWA) from 1996 to 2004 and Mr Don Munro, who was closely associated with the Western Australian agricultural co-operative sector from the 1960s to the early 1990s. As these individuals are, or have been, major figures within the Western Australian agricultural co-operative sector and hence easily identifiable, their names are used in this thesis with their permission. Other interviews were conducted on the

basis of confidentiality and every effort has been made to honour this commitment.¹¹ Where interviewees, including Madden, Booth and Munro, have been quoted or referred to, it is on the understanding that they do not officially represent or speak on behalf of their associated organisations. Rather, their views are acknowledged as personal views or perceptions of a particular issue.

The interviews and case studies are supported by a selective literature review of agricultural co-operative theory and agricultural restructuring theory. This review, contained in Chapter Two, provides a framework for the understanding of the issues surrounding the tensions faced by agricultural co-operatives functioning within a neoliberal public policy environment. To enhance the thoroughness of the research, other sources of information in the public domain are also used, such as annual reports, webpage information, newsletters from co-operatives and peak co-operative bodies and newspaper articles.¹² These supplementary sources of information aid in the process of triangulation of information arising in the interviews, providing additional rigour to the research.

Nevertheless, despite this effort, much of what is captured in the thesis is based solely on the information provided by the interviewees, and sometimes by just one interviewee. The thesis retains the uncorroborated information arising from these interviews, as this work is exploratory and seeks to develop a better understanding of the perspectives and experiences of various individuals and organisations, directly or indirectly, involved in or related, to the Western Australian agricultural sector.

Significant changes occurred in several of the case study organisations during the four years of this research. Firstly, the focus of the thesis shifted from a study of a particular type of agricultural co-operative structure, the NGC model, to a broader examination of the agricultural co-operative sector in Western Australia, as the proposed NGCs did not eventuate.¹³ Mr Rod Madden, the inaugural chair of the United Farmers Co-operative Company, resigned from the position of Chair in late

11 For reasons of confidentiality, the version of this thesis held by Edith Cowan University has removed identifying information about the interviewees. However, when the thesis was examined, general information regarding interviewees was provided to the examiners.

12 Rural media reports were particularly useful in following developments in the UFCC.

13 Appendix One explains the circumstances leading to the refocus of the research from a specific study of New Generation Co-operatives to a broader analysis of the Western Australian agricultural co-operative sector.

2003, and in early 2004, also resigned from the Board of Directors. The Co-operative Federation of Western Australia (CFWA), the peak body, restructured in 2004 and Mr John Booth's position of Executive Officer was made redundant. As part of the restructure, the CFWA re-badged itself as Co-operatives WA.¹⁴ There were also several staff changes within key government departments. While occurring prior to research on this thesis, Westralian Farmers Co-operative, an agricultural co-operative which figures very strongly in this thesis, converted in the mid 1980s to a corporation and renamed itself as Wesfarmers.

Due to the ongoing evolution in the case studies of issues identified in this thesis, a cut off date of early 2004 was established, although where appropriate, significant developments after this date have been taken into account. To some extent, these ongoing changes have complicated the overall narrative of the thesis. They also demonstrate that organisations and the agricultural co-operative sector itself are organic and evolving, and over relatively a short period can present an entirely different snapshot of the sector. Therefore, the thesis actually represents a time bound document that can potentially transform into a historical document in a very short period.

Significance of the Study

This thesis, to the best knowledge of the researcher, is the most extensive piece of contemporary research on the agricultural co-operative sector in Australia. The study of co-operative theory and practice in Australia is important in a period of wide ranging economic reform leading to declining market power of producers in the supply chain. As such, the thesis is of significance to academic research related to business structures, agricultural restructuring and agricultural economics. The study contributes to these areas of study by commenting on orthodox economic theory and examining the co-operative business model as a possible alternative to the more familiar investor owned corporate structure.

In terms of application, this study will enhance understanding of agricultural co-operative behaviour within the Australian context. This will contribute to the knowledge base for policy makers within government, and to those working in the

¹⁴ In order to minimise these name changes, the thesis retains the name CFWA for Co-operatives WA. Further, the CFWA is the incorporated name of this organisation.

agricultural industry, the agri-political sector and the wider Australian co-operative movement. The study also highlights issues related to the internal organisational behaviour of co-operative businesses as these organisations adjust to unfolding changes in the agricultural supply chain, particularly the relationship between the Boards of Directors and senior management, and the setting of business strategies for co-operatives.

Employing qualitative research methodology, specifically in-depth interviews for the case studies, as an alternative to the more commonly applied quantitative method, is also another contribution to the field of agricultural co-operative study. This approach enables the 'voice' of actors from within agricultural co-operatives and other institutions influencing the agricultural co-operative sector to be distinctively heard throughout the thesis.

Although the thesis gives some background information on the history of the agricultural co-operatives in Western Australia, the case studies focus primarily on agricultural co-operative and institutional behaviour at the beginning of the 21st century. The case studies therefore provide a valuable base line for future research. The thesis also demonstrates that agricultural co-operatives in Australia are organisations that merit further academic research and industry support.

Insofar as the thesis is concerned only with the Western Australian agricultural co-operative sector and the way it interfaces with political and economic factors based on neoliberalism, it has some limitations. The thesis does not address the behaviour of the agricultural co-operative sector in other parts of Australia or internationally. It is not concerned with non-agricultural co-operatives incorporated under the Western Australian *Companies (Co-operative) Act 1943*. It does not consider similar structures such as housing co-operatives, non-profit co-operatives, credit unions, building societies, friendly societies or franchises. Interviewees consulted for this thesis, with one exception, have been men; therefore, the thesis also has not addressed the views and experiences of women in relation to the agricultural co-operative structure. Lastly, the thesis makes only passing reference to the potential role of the agricultural co-operative structure to rural community economic development. This is a subject worthy of further investigation.

Organisation of the Thesis

The thesis consists of nine chapters. This introductory chapter introduced the notion of a tension between agricultural industry restructuring based on neoliberal theory and a possible uptake of agricultural co-operatives as a response to economic reform. This tension guided the study to the research problem and questions. The chapter also briefly outlined the research methodology and significance of the research.

Chapter Two selectively reviews the international literature on co-operative theory and agricultural co-operatives to introduce theoretical concepts and empirical research. The reviewed literature on agricultural co-operatives focuses mainly on North America, where it is a strong area of academic research and many of the issues are similar to those confronting the Australian agricultural industry. The literature review demonstrates a deficit in Australian research on agricultural co-operatives, with minimal work conducted on Western Australian agricultural co-operatives.

Chapter Three examines contemporary Australian agricultural public policy and strategies, with particular attention to the compatibility between agricultural policy and the agricultural co-operative structure. The chapter highlights a possible double effect of neoliberalism on the agricultural co-operative model. Chapter Four discusses the history of Western Australian agricultural co-operatives, particularly the conditions leading to the formation of the prominent Westralian Farmers Co-operative. In the mid 1980s, this co-operative converted to a corporation, Wesfarmers. The chapter argues that the subsequent success of Wesfarmers, to the benefit of its farmer shareholders, has created a rural mythology that the most appropriate trajectory for a commercially viable agricultural co-operative is to eventually become a corporation.

Chapter Five analyses the CFWA, the peak body for the co-operative movement in Western Australia. The chapter focuses on the tensions within the peak body in providing member benefits and services while concurrently building relationships with government and other influential agencies to positively affect public policy for co-operatives. The chapter analyses the peak body's commitment to a 'co-operative logic' or alternatively, if it is motivated by a more pragmatic approach to the co-operative as a business model.

Chapter Six reviews the public policy environment for agricultural co-operatives in Western Australia and the role of government in shaping public policy. This chapter also reviews public policy issues associated with the dismantling of Statutory Marketing Authorities (SMAs) and the implications of this for the agricultural co-operative sector. The chapter argues that there are strong ‘public good’ and ‘public benefit’ arguments to support a public policy position favourable toward agricultural co-operatives.

Chapter Seven introduces the United Farmers Co-operative Company (UFCC) case study. It reviews the economic and social factors leading to the formation of the UFCC and its subsequent evolution as an influential agricultural co-operative. This success hints at some pressures that point to a repetition of the early Westralian Farmers Co-operative development. Chapter Eight reviews the UFCC as a mature co-operative, with a particular focus on its internal dynamics. The chapter argues that there is evidence that the importation of corporate management has started to undermine its co-operative logic, with the potential outcome of a conversion to a corporate entity.

Chapter Nine is the concluding chapter. The preceding chapters collectively suggest that the Western Australian agricultural co-operative sector is confronting an uncertain future. Nevertheless, the thesis argues that the agricultural co-operative model has much to offer the agricultural industry and rural communities in Western Australia as they adapt to the outcomes of contemporary agricultural policy.

CHAPTER TWO

Review of the Literature: Major Approaches to Co-operative Theory and Agricultural Co-operative Theory

Introduction

A substantial body of international academic literature and empirical research about the behaviour of agricultural co-operatives is available. This chapter, through a selective reference to some of this literature, examines co-operative and specifically agricultural co-operative theory to help answer the research question and understand what is occurring in the Western Australian agricultural co-operative sector.¹⁵ The chapter firstly defines several terms specific to this thesis. It then reviews the literature to determine a definition of an agricultural co-operative; sets out some differences between the co-operative structure and the Investor Owned Firm (IOF)¹⁶ and concludes by summarising key conceptual developments in agricultural co-operative theory.

In the context of agricultural co-operative literature, this review focuses predominantly on North American work, as it is a strong area of academic research on agricultural co-operative theory development.¹⁷ North American agricultural co-operative research is highly relevant, as much of Australia's engagement with neoliberal theory emanates from the United States.¹⁸ Therefore, many of the issues facing North American agricultural co-operatives provide insights that are pertinent to the evolution of Australian agricultural co-operatives.

15 This chapter introduces key research and theoretical concepts relevant to this thesis. However, other chapters, where relevant, introduce additional theoretical concepts and literature to assist in understanding specific issues under discussion.

16 Cobia (1989) employs the term 'Investor Owned Firm' (IOF) to differentiate co-operatives from other types of 'for-profit' business structures.

17 The thesis is concerned with the behaviour of agricultural co-operatives in Western industrialised countries adapting to a neoliberal environment. It does not explore the activities of agricultural co-operatives in developing countries or transitional economies.

18 Chapter Three contains an analysis of neoliberal theory as it is applied to Australian agricultural industry policy development and the implications of this for the agricultural co-operative structure.

Defining Terms Associated with the Agricultural Co-operative Sector

‘Co-operative Movement’ and ‘Agricultural Co-operative Sector’

This thesis frequently refers to the ‘co-operative movement’¹⁹ and the ‘agricultural co-operative sector’. At one level, the terms are almost interchangeable. Chapter Four, in exploring the evolution of the agricultural co-operative model in Western Australia, demonstrates that the early history of Western Australia’s experience with the co-operative structure, dating back over 100 years, is essentially one tied directly to the beginnings of the Western Australia agricultural industry (Sandford, 1955). Agricultural co-operatives in present day Western Australia still comprise the largest industry sector adopting the co-operative structure (Western Australian Department of Consumer and Employment Protection, 2005a), contribute the greatest percentage to the annual co-operative movement turnover (Booth, 2004), and arguably exert the most influence over the Western Australian co-operative movement.

Nevertheless, the phrase ‘Western Australian co-operative movement’ is an overarching concept with a wider meaning than that encapsulated by the term ‘agricultural co-operative sector’. The Western Australian co-operative movement encompasses the collective efforts of former and present day individuals and groups who championed the development of a co-operative ethos and appropriate infrastructure to enable a business structure different from the corporate model to function throughout Western Australia. Historically this was essentially in regional Western Australia but the phrase encompasses a wider range of co-operative business structures than just agricultural co-operatives. Evolving over the last few decades in Western Australia, non-agricultural metropolitan based co-operatives and consumer or retail oriented co-operatives have registered under the *Western Australian Corporations (Co-operative) Act 1943*. The Capricorn Society (which sources products and services for co-operative members in the vehicle smash repair and service station industries) and Travellers Choice (a travel industry co-operative that obtains wholesale travel packages on behalf of its retail travel agent members) are

19 Although Lewis (1992) correctly argues that Australia has not had a ‘co-operative movement’ *per se*, the early history of the agricultural co-operative structure in rural and regional Western Australia is consistent with the concept of a social movement which can be construed as a ‘co-operative movement’.

examples of non-agricultural metropolitan co-operative sector activity in contemporary Western Australia.

The expression 'agricultural co-operative sector' specifically refers to co-operatives that supply agricultural inputs and services, or handle, market or add value to agricultural commodities. The member base of these co-operatives is predominantly engaged in the agricultural industry as farmers. Included loosely in this definition are some remnant country town retail co-operatives, which were originally formed to service farm enterprises and supply domestic goods to farm families.²⁰

The Family Farm

Family farms are significant in this thesis as they have historically employed agricultural co-operative structures as an institutional link to the agricultural supply chain²¹ and the wider market place. The agricultural co-operative represents a well-established strategy for family farms to engage assertively with the supply chain.

The vast majority of Western Australian farms are family based enterprises. By definition, the family farm is a business that is owned and operated by a family. The family provides most of the land, labour, and capital required to resource the farm, and farm management decisions are made within the family unit (Tonts & Black, 2001). The importance of the family in committing a substantial proportion of the total on-farm labour requirement is evident in this definition. Madden (2003b), the inaugural UFCC Chair and a grain farmer, argues that, in Western Australia, family farming will remain the dominant structure of on-farm production. He maintains that corporate farming in Western Australia will be held in check by the thin profit margins that render on-farm production an unattractive prospect for the corporate farming model.

Tonts and Black (2001) note a small trend towards corporate farming in some sectors of agriculture, such as the pastoral and dairy industries and intensive farming sectors such as poultry and pig industries. The literature identifies two main forms of

20 The term 'agricultural co-operative sector' could perhaps also include co-operatively owned farm enterprises engaged in the production of commodities. However, apart from a few cases of co-operatively owned farm businesses promoted or formed in the 1970s and subsequently disbanded, this form of agricultural co-operative is rare in Western Australia and is not usually seen by most co-operative sector actors as included under the heading of an agricultural co-operative.

21 The concept of a 'supply chain' is discussed in the following section.

non-family farming which can be defined as ‘corporate farming’ (McDougall, 1986; Tonts & Black, 2001). The first definition describes a farm owned by a group of diverse non-farming shareholders who can sell their shares at any time. The second form of corporate farming involves a form of legal contract between a family farm and other enterprises operating in other links of the supply chain. This form of corporate farming is also referred to as ‘contract farming’ (Hendrickson, Heffernan, Howard, & Heffernan, 2001; Stefanson & Fulton, 1997).

A third form of ‘corporate farming’ outside the definitions above was identified in the interviews for the present study. This encompasses large family farms which have achieved economies of scale by purchasing nearby farms and adopting corporate management practices, such as employing farm managers (Interviewee 680, 2003). This is part of a now well established trend of fewer and larger farm enterprises resulting from agricultural industry restructuring (Hooper, Martin, Love, & Fisher, 2002). It is debatable if these types of farms are actually a form of corporate farming. However, the perception by some actors within the agricultural co-operative sector that this category of farm structure is a corporate farm demonstrates the need to be cautious about the definitions of terms. In this thesis, these larger farms still owned by a (possibly intergenerational) family are deemed ‘family farms’.

Supply Chain

The concept of a ‘supply chain’ is relatively new and entered Australian agricultural industry discourse following several Agriculture, Fisheries and Forestry - Australia (AFFA) reports (Agriculture Fisheries and Forestry - Australia, 2000a, 2000b, 2001) and Rural Industries Research and Development Corporation (RIRDC) research reports (Thompson, 2001). A supply chain can be defined as:

...all stages of production, processing and distribution [which] are bound tightly together to ensure reliable, efficient delivery of high-quality products. The glue that binds together neighbouring links of the chain ranges from production contracts to outright ownership, or vertical integration. (Drabenstott, 1999, p 35)

In the context of the agricultural industry, the supply chain links every activity and enterprise that contributes to the final presentation of an agricultural commodity to the consumer. The supply chain is conceptualised as a sequential

series of interlocking parts, commencing with pre-farm services, such as fertiliser, seed and new technologies, followed by the on-farm production link, then post-farm activities such as handling, processing and retailing, on to the final link of the end consumer. An agricultural supply chain may range from relatively few to many linkages (Drabenstott, 1999). Drabenstott (1999) also notes that the most powerful actor in the chain usually initiates the formation of and controls the supply chain. As the next chapter demonstrates, the on-farm production link, that is the family farm, is typically the least powerful link in the supply chain. However, the co-operative structure can help counter this power differential (Cobia, 1989). Agricultural co-operatives usually operate in the links of the supply chain adjoining both sides of the on-farm production link; that is the input supply link and the post-farm link of handling, marketing or some form of value adding such as processing.

Definition of a Co-operative: International Co-operative Alliance²²

The literature reveals some diversity in defining an agricultural co-operative. It is valuable, therefore, to differentiate between definitions of a 'co-operative' and the specific form of 'agricultural co-operative'. Evolving from the co-operative principles penned by the founders of the original Rochdale co-operative²³ (Birchall, 1994), the International Co-operative Alliance (ICA) has redefined the values, principles and philosophy underpinning a co-operative. The 1995 Centennial Congress of the ICA adopted a Statement on the Co-operative Identity that provides a widely accepted definition of a co-operative as:

an autonomous association of persons united voluntarily to meet their common economic, social and cultural need and aspiration through a jointly-owned and democratically-controlled enterprise. (International Co-operative Alliance, 1995)

The ICA values state that:

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others. (International Co-operative Alliance, 1995)

²² The ICA is the peak organisation of the international co-operative movement.

²³ The Rochdale principles were open membership, democratic control (one member, one vote), distribution of the surplus to the members in proportion to their transactions, limited interest on capital, political and religious neutrality, cash trading, and promotion of education (Birchall, 1994).

The new principles are guidelines by which co-operatives put their values into practice and are as follows:

1. Voluntary and open membership - Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. Democratic member control - Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.
3. Member economic participation - Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.
4. Autonomy and independence - Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
5. Education, training and information - Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.
6. Co-operation among co-operatives - Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for community - Co-operatives work for the sustainable development of their communities through policies approved by their members. (International Co-operative Alliance, 1995)

The co-operative values and principles are a distinctive feature of the co-operative model and an essential element in understanding the unique nature of the co-operative structure. The extent to which agricultural co-operative definitions incorporate the ICA co-operative principles demonstrates some diversity in views about the centrality of some or all of these co-operative values in an agricultural co-operative. The uniqueness of these co-operative values becomes more significant in a later section of the chapter that contrasts the co-operative business structure with an IOF structure, a term used by Cobia (1989) to refer to business firms other than co-operatives.

Other Definitions of a Co-operative

The University of Wisconsin Co-operative Centre adopts the ICA definition of a co-operative and adds a complementary one of a co-operative as a 'business voluntarily owned and controlled by its member patrons and operated for them and by them on a non-profit or cost basis. It is owned by the people who use it' (University of Wisconsin Centre for Co-operatives, n.d.). Craig (1993, p 11) from a social sciences perspective, firstly defines co-operation as a verb, as 'any joint or collaborative behaviour that is directed towards some goal and in which there is a common interest or hope of reward'. He expands on this definition to incorporate an organisational structure in a later part of his work, as follows:

Co-operation is the free and voluntary association of people to create an organisation which they democratically control, providing themselves with goods, services and/or a livelihood rather than profiting from others, with an equitable contribution of capital and acceptance of a fair share of risks and benefits generation by the joint activity. To sustain their endeavour they must develop individuals and build a solidarity relationship with other co-operators and like minded people. (Craig, 1993, p 43)

Similarity and overlap in terms enable common themes to emerge in these co-operative definitions. Firstly, it is apparent that a co-operative has an associative organisational structure, often with an economic element, usually as a business. Further, members form and jointly own and control their co-operative. Profits are

distributed among the members. Craig's definition contains an implied values base and a social element.

The economic elements of a co-operative captured by the above definitions are also incorporated in definitions of the agricultural co-operative. In the context of agricultural co-operatives, the literature reveals some diversity in definitions (see, for example, Barton, 1989; Hind, 1997; Nilsson, Kyriakopoulos, & Van Dijk, 1997; Staatz, 1987). Staatz (1987) acknowledged the difficulty in defining an agricultural co-operative, arguing that it was problematical to develop a definition which can be applied to all agricultural co-operatives. Such a definition, he conceded, was unlikely to be comprehensive. However, he did develop a definition of a co-operative based on three elements that he considered would be found in most agricultural co-operatives. According to Staatz, an agricultural co-operative is:

.... a business with the following characteristics:

- 1) The stockholders, who are farmers, are the major users of the firm's services.
- 2) The benefits a stockholder receives from committing capital to a co-operative are tied largely to patronage. There are three reasons for this:
 - a) The business pays a strictly limited dividend on equity capital invested in the organisation.
 - b) Net margins are distributed among stockholders in proportion to their patronage with the business rather than in proportion to their equity ownership in the firm.
 - c) Stock of co-operative firms does not appreciate because there is a very limited or non-existent secondary market for it. Therefore capital gains are not a major benefit of stock ownership in co-operatives, in contrast to IOFs.
- 3) The formal governance of the business by the stockholders is structured "democratically" in the sense that:
 - a) Voting power is not proportional to equity investment. The limitation of "voting one's equity" may be in the form of one-member/one-vote rule, or voting may be proportional to patronage or stock ownership but subject to some limit such as restricting any one member from having more than 5 per cent of the total votes.

4. There are strict limitations on the number of non-stockholders who may serve on the board of directors. (Staatz, 1987, p 34-35)

Staatz composed this definition in the late 1980s as part of a commissioned United States Department of Agriculture (USDA) report to advance agricultural co-operative theory (Royer, 1987). The 'definition' is akin to a description, as it is highly detailed, providing considerable information about an agricultural co-operative as a business entity. The definition demonstrates the incursion of 'business' language into defining an agricultural co-operative, and contains no explicit reference to the ICA co-operative values. While the definition reflects the sentiment of the first four ICA co-operative values, it does not capture the latter ones concerning education and training, co-operation among co-operatives and concern for community. This neglect of the latter ICA principles occurs also in most other definitions of agricultural co-operatives.

Barton (1989) also argued that there was significant disagreement over what constituted the 'correct' set of principles for agricultural co-operatives. He suggested that further evolution was anticipated in co-operative values if agricultural co-operatives were to continue as effective economic institutions. Barton's definition differentiated four sets of co-operative principles adopted by agricultural co-operatives, which he labelled as:

- i. Rochdale
- ii. Traditional
- iii. Proportional
- iv. Contemporary co-operative values.

The fourth set of principles identified by Barton, namely contemporary co-operative values, consisted of three factors, which were:

- voting by member-users is on a democratic or proportional basis;
- equity is provided by patrons;
- net income is distributed to patrons as patronage refunds on a cost basis.

Unlike the ICA definition, with its focus on the social and cultural as well as the economic needs of members, supplemented by a statement of principles, Staatz

and Barton's definitions of an agricultural co-operative reflect a pragmatic and economic approach. This trend continued with the USDA (1987) agricultural co-operative definition, and subsequently adopted by Cobia. Cobia defined a co-operative as:

a user-owned and user-controlled business that distributes benefits on the basis of use. More specifically, it is distinguished from other businesses by three concepts or principles:

First the user-owned principle. Persons who own and finance the co-operatives are those that use it.

Second, the user-control principle. Control of the co-operative is by those who use the co-operative.

Third, the user-benefits principle. Benefits of the co-operative are distributed to its users on the basis of their use. The user benefits principle is often stated as business-at-cost. (Cobia, 1989, p 1)

According to Reynolds (2000), the 1987 USDA restatement of the co-operative principles confirmed the central user basis of agricultural co-operatives and removed those which were deemed operational rather than actual principles. He asserted that the USDA interpretation of the co-operative principles encouraged members to maintain a longer-term connection with their agricultural co-operative (Reynolds, 2000). A subsequent USDA publication (United States Department of Agriculture, 2002, p 1) underlined this definition by reconfirming the 1987 report that an agricultural co-operative is characterised by the three core principles of user-owner, user-control, and user-benefits. It further stated that:

a co-operative is a business that is owned and controlled by the people who use its services and whose benefits (services received and earnings allocations) are shared by the users on the basis of use. Only an enterprise conforming to the spirit and intent of this definition should be labelled a co-operative. (United States Department of Agriculture, 2002, p 1)

The USDA definition appears to be the most cited definition in United States papers on agricultural co-operatives in both the academic and non-academic literature. The difficulty in developing an agreed definition of an agricultural co-operative to encompass all variations in activity perhaps explains the ubiquity in the United States of the USDA definition. van Bekkum and Nilsson (2000) chose to use the USDA 1987 definition of an agricultural co-operative in a European context.

Clearly, the USDA definition is sufficiently broad and acceptable to academics to define agricultural co-operatives across western industrialised countries.²⁴ Australian literature on agricultural co-operatives provides limited definitions. Lyons (2001a) adopted a legislative definition of a co-operative as an organisation incorporated under State or Territory co-operative legislation. The Commonwealth *Income Tax Assessment Act 1936* described an agricultural co-operative for taxation purposes in Sections 117 through to 120 of the Act (Hildebrand, 2002). The Australian Agricultural Council (1988, p 4), cited in Krivokapic-Skoko (2002a, p 3), defined agricultural co-operatives as ‘associations of primary producers who have come together to achieve some common commercial objectives more successfully than they could as individuals’. Australian academics have also implicitly defined agricultural co-operatives by describing their functions, such as a supply co-operative or a marketing co-operative (see, for example, Langdon, 1991) or by analysing their current or potential role in the agricultural industry or rural Australia (e.g. Lawrence, 1987; Pritchard, 1996).

O'Connor and Thompson (2001) and Clarke (1999) have used the term ‘traditional’ to describe Australian agricultural co-operatives. In this context ‘traditional’ differentiates existing agricultural co-operatives from a relatively recent development in agricultural co-operative models that incorporate features more commonly found in IOFs, such as the NGC model. Some Australian agricultural co-operatives have also experimented with elements of IOFs, such as innovative share and capitalising arrangements adopted by Tatura Milk Industries Ltd (Plunkett & Kingwell, 2001), Dairy Farmers Group (Greenwood, 2001) and Challenge Dairy Co-operative (Interviewee 652, 2003), and the Tatura Co-operative Dairy Company in New Zealand (Frampton, 2001).²⁵

The discussion concerning a definition for an agricultural co-operative indicates that there is considerable diversity in definitions. The scope in definitions is linked to how strongly the ICA co-operative principles have been embedded into the

24 The expansiveness of the agriculture co-operative definition can also embrace hybrid co-operative structures. The New Generation Co-operative (NGC) model fits this definition and is therefore deemed an agricultural co-operative (Bielik, 1999) despite perhaps not being consistent with a number of the original Rochdale principles or the ICA statement of co-operative values.

25 Despite these examples in Australia of some agricultural co-operatives exploring hybrid co-operative structures, it appears that the more common Australian experience with alternative options to the traditional agricultural co-operative model is direct conversion to a corporate structure (Cronan, 1995).

definition. Agricultural co-operative definitions have veered towards a pragmatic interpretation of the co-operative values. The majority of agricultural co-operative definitions are also framed in business or economic language, reflecting the academic disciplines of various writers and the economic focus of agricultural co-operatives. The UFCC case study presented later in this thesis provides insight to the relevance of the co-operative values in its evolution and perception of itself as a business entity.

Defining a ‘Co-operative’ in this Thesis

This thesis principally adopts the USDA definition of an agricultural co-operative. However, a legal definition of a co-operative is also central to an Australian understanding of a co-operative. In this thesis, a co-operative is a business registered under the present Western Australian *Corporations (Co-operative) Act 1943* or is successor legislation.²⁶ It is acknowledged that there are entities in Western Australia that have characteristics of co-operatives but these organisations cannot register as co-operatives due to the nature of the current legislation. The several housing ‘co-operatives’ functioning in Western Australia, for example, are not recognised as co-operatives under the Western Australian legislation despite identifying with the concept of the co-operative model and its principles (Booth, 2004; Interviewee 659, 2003). Additionally, credit unions and building societies, while embracing the co-operative principles of mutuality, operate under separate legislation and are not deemed ‘co-operatives’ under the Western Australian *Corporations (Co-operative) Act 1943*. There are also many informal farmer groups in Western Australia which display some features of co-operative values and business philosophy in their behaviour (Murray-Prior, Ducie, Burnside, & Flanagan, 1997). Although these informal groups do not fall under the legal definition of a co-operative, they are often the breeding ground of new agricultural co-operatives that subsequently register under the Western Australian legislation.

The types of agricultural co-operatives examined in this thesis are involved in some form of farm supply input or post-farm activity. The United Farmers Co-operative Company is an example of a supply co-operative that sources and imports agricultural chemicals and fertilisers on behalf of its farmer members. Post-farm

26 The issue of the legislation for co-operatives in Western Australia is discussed in Chapters Five and Six and Appendix Two. Some Western Australian co-operatives are also registered under the Co-operative and Provident Societies Act 1903.

agricultural co-operatives can be involved in the handling, transport and marketing of members' agricultural commodities, such as Co-operative Bulk Handling in the grains industry. Challenge Dairy Co-operative is an example of a post-farm agricultural co-operative concerned with the collection of members' raw milk, and the processing, value adding and wholesaling of these milk products into the international market.

The research has revealed that Western Australian farmers have not generally embraced the concept of 'on-farm production co-operatives', in which farmers amalgamate their on-farm production activities and resources to produce a commodity.²⁷ On-farm co-operative activities were promoted in South Australia in the 1970s (Chatterton, 1976) and Lawrence (1987) discussed on-farm syndication as a strategy to address rural issues. A group of Western Australian grain farmers contemplated the model in the 1980s but did not pursue the initiative (Interviewee 655, 2003). More recently, four farmers in New South Wales informally amalgamated their landholdings and resources to farm collectively (Hughes, 2003). Hildebrand (2002) recommended that the Queensland sugar industry explore the possibility of on-farm sugar production co-operatives. Despite these few examples, this model has not become a mainstream pursuit within the Western Australian agricultural co-operative sector.²⁸

Investment Owned Firms (IOFs) and Agricultural Co-operatives

A co-operative business is one of several forms of legal business structure. In Australia, other legal structures are unincorporated sole trader, partnership, unincorporated and incorporated non-profit associations and a range of company structures, classified according to the degree of liability of company members (Ford, Austin, & Ramsay, 1997). The co-operative legal structure is also a form of company incorporated under a State based co-operatives act, such as the Western Australian

27 Group Settlements were established in the wheatbelt and southwest of Western Australia in the 1920s. This large-scale assisted program of immigration from Britain was designed to open up farming lands and strengthen British culture and identity in Western Australia. Groups were formed with twelve to fourteen families. While successful in opening up farming land, the scheme itself was flawed by poor planning and the inexperience of the settlers (Brayshay and Selwood 2002). The Groups Settlements were not a form of on-farm production co-operatives.

28 Two interviewees (Interviewee 687, 2003; Interviewee 689, 2002) believed that the members of a Christian sect operated a group of farms in the Western Australian wheatbelt in a co-operative manner.

Companies (Co-operative) Act 1943. A co-operative business is an unlisted public company and is unable to list its shares on the Australian Stock Exchange. In most Australian States, co-operatives can be either commercial or non-profit organisations (Australian Capital Territory, 1999); however, in Western Australia the existing legislation prohibits the incorporation of non-commercial co-operatives.²⁹ Co-operative legislation disallows the use of the noun 'co-operative' in the registered name of any organisation not incorporated under co-operative legislation.

Commercially oriented co-operatives, in several aspects, are similar to companies.³⁰ They undertake comparable functions and follow many of the same business practices to ensure longevity. As with companies, profitability of the co-operative is essential. Both business structures are incorporated and have a legal status separate from that of their membership or shareholders with limited liability. While there are many similarities between them, several distinctive features of a co-operative differentiate it from an IOF structure. The philosophical values contained within the co-operative principles cause the co-operative model to treat the purpose, ownership, control and distribution of benefits differently from an IOF.

The underlying philosophies of IOFs and co-operatives partly explain these differences. The theory of the firm, based on neoclassical economic theory, posits that the main objective of an IOF is profit maximisation on behalf of its shareholders (Cobia, 1989). In contrast, co-operative theory determines that a co-operative may have other objectives, such as maximising a benefit or service to the members who own and control it and rewarding them with a patronage rebate, rather than simply pursuing profit maximisation (Cobia, 1989). This close connection between the roles of member, owner and user is a distinctive feature of a co-operative. In addition to economic benefits, the co-operative principles also promote social objectives such as democracy, member participation and education.³¹ These multiple objectives may be internally contradictory for the co-operative, unlike the singular profit maximisation objective of the IOF (Mooney & Gray, 2002).

29 The proposed legislation for co-operatives will enable both trading (commercial) and non-trading (non-profit) co-operatives. Appendix Two discusses legislation for co-operatives.

30 Corporations or companies in this thesis are also referred to as Investor Owned Firms or IOFs.

31 The co-operative pursuit of a benefit or service/good rather than 'profit' does not suggest that the co-operative should operate at a loss. A co-operative must be economically and financially sound to achieve its benefits; however, profit is not its primary objective.

The variation in objectives between the two models can lead to different business strategies. As an agricultural co-operative seeks to maximise member farm business profitability, rather than its own profitability, it may pay as high a price as possible when purchasing member commodities (Cobia, 1989). Alternatively, a supply co-operative will seek to sell farm inputs, such as chemicals and fertiliser, to its members at cost (Cobia, 1989). An IOF, by contrast, will set a high price when selling a product, or seek to minimise the costs of purchasing a product, in order to maximise the level of profit on behalf of its shareholders.

The ownership of the two business structures sits with the shareholders (Hansmann, 1996). However, ownership in an IOF is based on individual private property rights (Chaddad & Cook, 2002), which contrasts with the collective ownership of the co-operative structure. Further, in a co-operative, the shareholder is also a member while in an IOF the shareholder is simply an investor. The co-operative shareholder is referred to rightly as a ‘member’ in co-operative discourse (Craig, 1993), although in Australian agricultural co-operatives, the term ‘shareholder’ is widely used (Madden, 2003b). IOF shareholders have an ‘arm’s length’ association with the IOF (Hansmann, 1996). Members of a co-operative, as its owners, have a much more intimate and direct relationship with the co-operative, as they are also the users of the co-operative, by, for example, supplying raw materials or purchasing services or products.

Membership of an agricultural co-operative is usually restricted to farmers actively involved in the commercial production of a commodity. This is different from an IOF, as usually there are no restrictions on who can buy a share or how many shares they may purchase (Cobia, 1989). Further, as the company is listed on the external stock exchange, shares can be easily bought and sold in the open market. Shares in an IOF can increase or decrease in value according to the market (Cobia, 1989), while shares in an agricultural co-operative are generally of a fixed and nominal value and can only be sold back to the co-operative at par value (the value at which they were originally purchased).³²

32 Hybrid agricultural co-operative structures, such as the New Generation Co-operative model, may have different mechanisms for share ownership and funding within a co-operative (Stefanson et al., 1995).

Voting privileges in an IOF are proportional to the number of shares owned by an investor. Only investors with large share portfolios will have significant voting power. In a co-operative, the democratic co-operative principle of one member, one vote guarantees that all members have an equal share and vote in the election of the Board of Directors (Craig, 1993). The democratic nature of the agricultural co-operative structure arising from the principle of one member, one vote ensures that control of the co-operative remains with its farmer members. Unlike the IOF structure, in a co-operative, control of the business by one shareholder or group of shareholders on the basis of their investment cannot occur, which is an appealing feature of the co-operative structure for farmers with smaller enterprises.

Membership of the co-operative also conveys a responsibility for managing and controlling the co-operative (Craig, 1993). Co-operatives and IOFs both have elected Boards of Directors and employ staff. However, the differences between IOFs and co-operatives are reflected in management styles of the Board of Directors and executive staff. The implicit and explicit values of a co-operative require a particular mindset in management, which Craig (1993) refers to as a 'co-operative logic'. However, access to a pool of management with this logic is limited in an IOF dominated economy, which focuses on profit maximisation as the primary objective of a business entity.

A further significant distinction between the IOF and the co-operative concerns the distribution of profit (which is also referred to as 'surplus' in co-operative discourse). In an IOF, profits are usually allocated between reserves for the growth of the IOF and a dividend, where investor shareholders receive a return on their shareholdings (Hansmann, 1996). A co-operative's profit (surplus) is also allocated between retained equity to fund future co-operative activities and a patronage rebate (Cobia, 1989; Cook & Iliopoulos, 2000; Fulton, 1995). However, unlike an IOF, a co-operative does not allocate surplus on the basis of shareholdings, but on the basis of member patronage. A rebate is a share of the co-operative surplus and is calculated on a proportional basis determined by the amount of business (patronage) a member conducts with the co-operative. Therefore, the greater the business carried out with the co-operative, the greater the patronage rebate for the member.

IOFs and co-operatives can also differ in capital raising strategies. An IOF raises its capital via listing on a stock exchange and selling shares to investors. It may also borrow funds from the banking industry (Hansmann, 1996). In contrast, a co-operative predominantly sources its funds from its membership, and may supplement this member funded capital base with loans from the banking sector (Hansmann, 1996). As a co-operative cannot list on the stock exchange, it cannot access investor shareholder funds (Hansmann, 1996). While a co-operative relies mostly on its members for capital, and cannot raise additional funds from investor shareholders, an agricultural co-operative may be restricted in its capital raising strategies (Cobia, 1989). This factor is a recurring theme in the literature.

In the United States, Schrader (1989) argued that agricultural co-operative practices and State and Federal legislation affecting agricultural co-operatives result in a persistent lack of capital. The USDA (2002) noted that as a business structure funded predominantly by its membership, it can be difficult for members to provide sufficient capital for the co-operative venture, particularly for a highly capital intensive co-operative involved in the processing or marketing of commodities. Further, an agricultural co-operative, in contrast to an IOF, may have difficulties in accessing capital from alternative sources such as commercial banks or joint venture investors (Cobia, 1989). Unlike the IOF structure, a co-operative is not designed as an investment vehicle for external investors. Therefore, the structural inability found within the co-operative form to raise sufficient funds may result in inadequate investment in technology or equipment, leading to economic inefficiencies in the co-operative (United States Department of Agriculture, 2002).

In Australia, agricultural co-operatives that meet Sections 117 to 120 of the Commonwealth *Income Tax Assessment Act 1936* may qualify for taxation benefits (Hildebrand, 2002). This is a significant advantage over the corporate structure for producers engaging in agribusiness related activities.³³

A comparison of the IOF and co-operative structure, in the absence of strong co-operative theory knowledge, diminishes the intrinsic strength of the co-operative business model and the factors influencing its behaviour. Given that the IOF is the business structure compatible with orthodox economic theory, and that agribusiness

³³ The *Income Tax Assessment Act 1936* taxation advantages for agricultural co-operatives are discussed in Chapter Eight.

actors generally have a stronger understanding of the IOF model than the agricultural co-operative model, the comparison tends to construct the agricultural co-operative structure as a business entity with inherent flaws. Often, the proposed solution to these perceived flaws is to encourage the agricultural co-operative to emulate features of the IOF. However, this strategy unintentionally tends to weaken the intrinsic strength of the co-operative model and may become the first step in a process whereby the co-operative is converted into a corporation.

It is acknowledged that the agricultural co-operative structure may have some elements that may contribute to organisational decline when left unaddressed (Cobia, 1989; Craig, 1993). These factors, however, need to be placed into perspective. The IOF business structure also experiences a range of benefits and disadvantages, and many businesses based on this model also fail as business entities. According to Bickerdyke, Lattimore and Madge (2000), a third of Australian businesses are not operating after five years.³⁴ This high failure rate is not countenanced as a flaw in the basic premise of the IOF structure. In contrast, influential actors, particularly those trained in economic theory, frequently contest the economic viability of the co-operative structure.

Review of Selected Agricultural Co-operative Literature³⁵

A review of agricultural co-operative literature reflects a strong and sustained orientation towards economic theory. Economic analysis of the agricultural co-operative structure tends to fall into two streams.³⁶ Firstly, macro-economic theory seeks to explain the existence of the agricultural co-operative as an organisational form in the market. The focus of this approach is on the ability of the co-operative model to contribute to the efficiency of the market and hence to rationalise some form of public policy intervention in support of the co-operative model (Torgerson et al., 1997). Micro-economic approaches to internal agriculture co-operative organisational behaviour has driven theoretical evolution for the past 40 years.

34 Many of these businesses may have closed due to non-economic reasons which are unrelated to the financial position of the business, suggesting that the profit maximisation tenet of the theory of the firm is not always a reason to enter business or indeed exit a business.

35 Some of the literature reviewed in this chapter and throughout the thesis may be viewed as 'dated'. However, the historical and evolutionary insight offered from this literature about agricultural co-operatives justifies their inclusion.

36 Cook (1995), Torgerson et al., (1997) and Krivokapic -Skoko (2002a; 2002b) summarise literature on agricultural co-operative theory.

Micro-level analysis tends to be dominated by neo-classical theory and new institutional economic theory, including transaction costs theory. Property rights theory and principal-agent theory are recent approaches to analyse problems attributed to the agricultural co-operative structure.

The early macro-economic work is of interest to this thesis as it explores how the agricultural co-operative can influence its external environment. Sapiro's theoretical contribution in the 1920s positioned co-operatives as instruments of orderly marketing (Sapiro, 1920, cited in Torgerson et al., 1997). He supported the formation of regionally based monopoly marketing co-operatives as a market mechanism to create economies of scale and secure the best market price for member commodities, thus enhancing member returns. This form of post-farm co-operative competed with, or bypassed, IOFs operating in the handling and marketing of commodities (Cook, 1995). Sapiro's interpretation of the role of the agricultural co-operative is an early indication that co-operatives enabled farmers to vertically integrate into the post-farm gate segment of the supply chain. Sapiro's work is significant to this thesis, as this form of orderly marketing is reminiscent of Australia's adoption of Statutory Marketing Authorities (SMAs) around the same period to undertake comparable functions on behalf of farmer members.³⁷

In a similar time frame, and as a counter to Sapiro's interpretation of the role of the agricultural co-operative, Nourse introduced the concept of the 'competitive yardstick' (Nourse, 1922, cited in Cook, 1995, Torgerson et al., 1997). Nourse rejected Sapiro's monopoly role of the agricultural co-operative, arguing that an agricultural co-operative's function was to ensure a competitive market place. Nourse contended that an agricultural co-operative formed to correct some form of market failure. This may be removing the monopoly power of an IOF or providing a missing, costly or inadequate good or service in the market (Mooney & Gray, 2002). When a competitive market was created or restored by the presence of the co-operative, Nourse argued that it should not attempt to dominate the market, but assume a maintenance role of keeping IOFs and the market competitive, that is, be a 'competitive yardstick'. Nourse further argued that, in some situations, once IOFs are competing efficiently amongst themselves in the market place, it may be more appropriate for the co-operative to wind up (Mooney & Gray, 2002). The concept of

³⁷ SMAs are discussed in Chapter Six.

‘competitive yardstick’ is informative to this thesis in understanding the behaviour of the United Farmers Co-operative Company (UFCC) case study.

A significant conceptual shift from analysing the macro-economic role of agricultural co-operatives to examining their internal behaviour was Emelianoff’s work in the 1940s (Emelianoff, 1948, cited in Torgerson et al., 1997). Emelianoff’s contribution was the analysis of the agricultural co-operative as a mechanism for vertical integration. He further argued that the role of a co-operative was to operate at cost. Therefore, an agricultural co-operative did not seek to earn profits for itself, but for the members’ farm business, precipitately introducing the concept of principal and agent within an agricultural co-operative. These are important concepts to guide agricultural co-operative business strategy, and again they are useful in analysing the strategic direction of UFCC.

A theory of the firm adapted for the agricultural co-operative business model evolved during the 1960s, commencing with the work of Helmberger and Hoos, (1962, cited in Torgerson et al., 1997). While the theory of the firm assumed that the firm’s objective was to maximise profits, the co-operative was understood to have multiple objectives related to maximising organisational outcomes. However, unlike the IOF, these objectives were not to maximise profit, but to maximise benefits to members, via for example, patronage refunds or minimising on-farm costs.

Helmberger contributed further to agricultural co-operative theory evolution during the 1960s. Writing in a period when the United States agricultural industry started to industrialise, Helmberger (1966) argued that the changing structure of agriculture and technology would threaten the relevance of agricultural co-operatives. A contrary argument was presented by Abrahamsen who interpreted agricultural industrialisation as an opportunity for agricultural co-operatives to integrate farmers into the changing agricultural industry (Abrahamsen, 1966, cited in Cook, 1995). Given that agricultural co-operatives continue to absorb the interest of academics 40 years later, Helmberger’s views may have been premature. However, Fulton (1995), employing a property rights approach, revisited the factors identified by Helmberger as a starting point to analyse whether contemporary agricultural co-operatives, as collective structures, can survive in a wider society that favours business structures which separate ownership and use, that is IOFs. Fulton concluded that changing societal values, such as rising individualism, combined with

the increasing industrialisation of the agricultural industry, make co-operation more difficult and by extension threaten the formation and resilience of agricultural co-operatives.

Fulton's adoption of a property rights approach in the analysis of agriculture co-operatives is part of a wider shift in the contemporary theoretical framework for agricultural co-operatives. It is important to acknowledge that the increasingly sophisticated theoretical treatment of agricultural co-operatives has coincided with significant changes in the agricultural industry and the growing complexity of the agricultural co-operative business model itself. Of significance to this thesis is the application of concepts sitting within the broader field of new institutional economics, such as transaction cost economics, the economics of property rights and principal-agent theory, to explain the behaviour of agricultural co-operatives.³⁸

An important conceptual contribution for this thesis is the work of Shaffer (1987). Shaffer applied transaction costs analysis to explore the capacity of agricultural co-operatives to coordinate macro-economic activity. His work indicated that vertical linkages established by agricultural co-operatives in an economic system did not just depend on a co-operative's ability to create economies of scale and address monopoly power problems, but also on the costs associated with transactions to perform this coordinating function. Additionally, Shaffer theorised that the efficacy of performing these coordination functions also partly depended on the internal organisational relationships between the co-operative's principals and agents. Shaffer's work indicates a desire to take account of macro-economic factors and the interplay of these with organisational factors to explain the complexity of external and internal elements of agricultural co-operative behaviour.

The work of Cook (1995) and Cook and Iliopoulos (2000) also provides a significant theoretical framework for this thesis. This work has drawn together a body of literature detailing several difficulties attributed to the agricultural co-operative structure. From a new institutional economics perspective, these problems

38 The literature reveals the continuing economic focus of contemporary agricultural co-operative analysis. Condon (1987) was an early advocate of the property rights approach to extend co-operative theory for agricultural co-operatives. The property rights approach has been built upon by Fulton (1995), Cook (1995), Cook and Iliopoulos (2000), van Bekkum (2000) and Chaddad and Cook (2002) in their theoretical analysis of agricultural co-operatives. Principal-agent theory has been favoured by European agricultural co-operative theorists, such as van Bekkum and Nilsson (2000), Rokholt and Borgen (2000), and Borgen (2000). Australian academics and commentators, such as Mathews (1999), Plunkett (1999) and Clarke (1999) have also adopted principal-agent theory in their work.

are ascribed to vaguely defined property rights specific to the unique user-driven nature of the co-operative model. The first three affect investment issues for a co-operative while the remainder impact on the management of co-operatives.

The first is the 'free rider' phenomenon, which may arise from factors within or external to the co-operative (Cook, 1995). The internal problem is connected with the common property of a co-operative and arises when new members of an agricultural co-operative immediately gain the same benefits as existing members. As new members join, co-operative rebates are diluted amongst the total membership (Cook and Iliopoulos, 2000). New members, in effect, are free riding on the past efforts and contributions of long-standing members. This potentially creates inter-generational conflict and is a disincentive for long standing members to invest in the co-operative (Cook and Iliopoulos, 2000).

The external free rider problem arises when non-members benefit from the collective action of co-operative members, without bearing any of the joint organisational costs of the co-operative (Cook, 1995; Fulton, 2001). Non-members, therefore, are enjoying private benefits from the co-operative without participating in the process of creating them, consequently free riding on the collective effort of others.

The second problem, the 'horizon problem', arises from a disparity in some members' anticipated membership period and the time frame required to benefit from future investments undertaken by the co-operative. Members close to retirement from farming may not have an incentive to support and direct co-operative funds into projects that will not realise a financial benefit for them personally, even though the proposed investment is in the long-term interest of the co-operative (Cook and Iliopoulos, 2000). In this environment, some members may prefer that co-operative surpluses be directed back to members as rebates, rather than set aside to invest in the co-operative's future, potentially depriving the co-operative of capital for future proposals (Cook and Iliopoulos, 2000). This problem may render the co-operative structure less efficient than an IOF, as it facilitates a situation where sub-optimal investment decisions may occur (Cook and Iliopoulos, 2000).

The 'portfolio problem' arises when some members' personal risk profiles may not be compatible with the strategies recommended by the Board of Directors. Conflict may arise between members who have differing risk profiles, which may

cause the co-operative to make non-optimal decisions in order to pacify risk adverse members (Cook and Iliopoulos, 2000).

The last two problems relate to management issues that may affect agricultural co-operatives (Cook and Iliopoulos, 2000). The fourth matter concerns issues associated with the costs of control. This issue is linked to the principal-agent theory, which examines the problem of motivating one party (the agent) to act on behalf of another (the principal) to maximise the principal's goals for the organisation. While both IOFs and co-operatives separate ownership and management, mechanisms to control management differ between the two structures. The control problem is attributed to the inherent features of the co-operative structure that cause inefficiencies in performance when compared to IOFs (Porter & Scully, 1987). As a democratic organisation, a co-operative requires the active participation of its membership, each of whom have an equal voice in determining management issues. As the benefits of the co-operative are shared equally, there are fewer incentives to become involved in the governance of a co-operative and monitor the activities of management. In contrast, investors own an IOF and exert control over management according to the number of shares they hold. As investors with large share portfolios will potentially generate higher profits, it is in their own interests to monitor the performance of management, thus allegedly rendering the IOF a more efficient structure compared with the co-operative model. Linked to this cost of control is a concern with a lack of measures to evaluate the success of the co-operative, compared with, for example, the indicator commonly used in an IOF of the share price in the open market. The lack of measurable indicators within a co-operative is considered to inhibit management from developing higher-level management skills. Therefore, Cook (1995) concludes, the intrinsic factors associated with the co-operative structure may lead to greater costs in controlling the activities of the manager as agent.

Lastly, 'influence costs problems' may arise in a co-operative as it can have multiple and possibly conflicting objectives. In contrast, an IOF has the singular objective of profit maximisation. The broader the diversity of co-operative activities, the greater the potential opportunity for influence costs to develop. Cook (1995) argues that these problems may arise when members' interests become heterogeneous and factions develop to promote particular agendas. The separate

groups may seek to exert influence over management and co-operative strategy for their own interests, which can be distracting and damaging to the financial well-being of the co-operative (Cook, 1995).

Cook's analysis of these property rights issues is significant to this thesis. Professor Cook, at the invitation of the Western Australian Department of Agriculture, presented some seminars in Western Australia in the late 1990s on these factors in the context of NGCs.³⁹ Several interviewees for this thesis attended these seminars, revealing that there is a residual knowledge within the agricultural industry of these property rights 'problems' with the agricultural co-operative structure.

Non-Economic Theoretical Approaches to Agricultural Co-operatives

Craig (1993), from a sociological perspective, offers alternative theoretical approaches to explain why people behave co-operatively and hence form co-operatives. He argues that these theories link co-operative activity to biological, psychological and cultural origins. He briefly explores the theory of mutual aid, socio-biological theory, behavioural theory and exchange theory as explanations for co-operativeness. However, he argues that none of these theories adequately explains co-operative behaviour and organisations. He goes on to develop his own theoretical approach to account for co-operative organisational development, success and failure, built around the concept of 'co-operative logic'.

According to Craig (1993), co-operative logic is based on co-operative values. Co-operative logic assumes that each member of a co-operative understands these values. Complexity and diversity is intrinsic to this logic and is embraced as it brings innovation. Co-operative logic acknowledges the inherent tensions in balancing economic and social objectives within co-operative organisations. Co-operative logic recognises that the needs of each group are unique and that members will develop a co-operative organisational model responsive to their specific needs. The logic accepts that decisions made by members via a democratic process and based on co-operative logic may not be understood by outsiders, yet will be very meaningful to members of the co-operative (Craig, 1993). Craig (1993) also acknowledges that co-operative logic can be difficult to communicate to those who

39 See Appendix Three for further information on these seminars and Appendix Five for a discussion of New Generation Co-operatives.

are not socialised in this logic. He argues that individuals who frame their understanding of business structures via the IOF prism can find it very difficult to understand co-operative logic and the way that it applies to co-operative business structures.

According to Craig (1993), as an organised group of farmers, agricultural co-operatives can be a vehicle for empowering farmers in political and economic debates, enhancing the democratic nature of the organisation and the society in which the co-operative functions. As democratic organisations, agricultural co-operatives can therefore contribute to the formation of social capital. Putnam (1993, p 2) defines social capital as 'features of social organisation, such as networks, norms and trust, that facilitate coordination and co-operation for mutual benefit'. Putnam considers social capital as an essential ingredient in a civil society, and one of the prerequisites for a democracy is a well-developed civil society. Therefore, in the process of forming a co-operative, farmers join together to develop networks and trust among members, building social capital within the rural community in which the co-operative is embedded. Agricultural co-operatives, as a result, are structures that promote democracy, social capital and a blend of social and economic goals in regional communities.⁴⁰

The social capital of an agricultural co-operative can be expressed in various ways. The rooted nature of an agricultural co-operative in a geographic area ensures that the income generated by the co-operative also remains within the community, while an IOF may choose to leave (United States Department of Agriculture, 1990). An agricultural co-operative, as a result, offers a mechanism for local control. Craig (1993) suggests that external decision-makers are more likely to take notice of the collective voice of the agricultural co-operative than the views of an independent farmer, further enhancing local control. The participative structures of co-operatives can promote and facilitate an entrepreneurial spirit among groups who may not have an opportunity to develop organisational or management skills (Craig, 1993). Craig (1993) argues that the internal funding via members makes co-operatives independent of external investment.⁴¹ This aspect means that co-operatives can be a

40 For further discussion on social capital see, for example, Cavaye (2000), Coleman (1988), Cox (1995), Putnam (1993; 1995), Winter (2000), and Woolcock (1998).

41 Capital raising issues associated with agricultural co-operatives are discussed elsewhere in the chapter.

source of employment in mature or declining industries and sparsely populated regions or with socially marginalised groups. Co-operatives, accordingly, enable the local community to engage within a globalised capitalist economy.

Given that agricultural co-operatives may build social capital within a rural community, Bourdieu provides a conceptual map to understand that in addition to social capital, other forms of capital may also derive from agricultural co-operatives. Bourdieu (1986) extended the concept of 'capital' beyond its economic basis to include 'immaterial' and 'non-economic' forms of capital. He defined and explained how the different types of capital can be attained, substituted, and converted into other forms. In Bourdieu's discussion on conversions between different types of capital, he established that all types of capital could be derived from economic capital through varying modes of conversion (Bourdieu, 1986). Social capital may therefore be exchanged and transformed with another form of capital, such as economic capital or possibly, even 'co-operative capital', thus contributing to the economic well-being of a regional area.

Mooney and Gray (2002) present one of the few sociological examinations of agricultural co-operatives. They identify the influences of historical and sociological factors in contemporary agricultural co-operative behaviour. Their analysis of agricultural co-operatives also acknowledges the inherent contradictions within the co-operative values identified by Craig (1993). However, unlike much of the analysis of agricultural co-operatives by academics trained in economics, Mooney and Gray argue that this tension is positive, as it leads to better quality decision making by agricultural co-operative Boards.

Cobia (1989) also notes these social factors associated with being a member of an agricultural co-operative. He recognises that these intrinsic and satisfying benefits for members can accrue from being part of an association of peers, from involvement in a member-based organisation with a common purpose and from experiencing the democratic nature of electing co-operative Board members. However, Cobia correctly cautions that, while the social benefits of an agricultural co-operative are important, the co-operative must position its economic objectives as its first priority to ensure that it remains in business.

Australian literature with a non-economic theoretical perspective on co-operatives and agricultural co-operatives is limited. Lewis (1992) explored the

development of the Rochdale model in this country. Lyons (1996; 2001a; 2001b) has written about Australian experiences of co-operatives, including agricultural co-operatives, mostly within the context of the broader environment of voluntary associations. There are references to agricultural co-operatives by some Australian academics working in the area of rural restructuring, such as Lawrence (1987) and Pritchard (1996). Krivokapic-Skoko (2002a; 2002b) summarised international literature and various classifications systems of agricultural co-operatives. The Co-operative Federation of Victoria, in conjunction with www.australia.coop (Griffiths, 2004) and the Australian Centre for Co-operative Research and Development (ACCORD) have developed websites, undertaken some research and prepared submissions to government agencies about co-operatives (Australian Centre for Co-operative Research and Development, n.d.-a).⁴² Greenwood, for many years, edited a co-operative newsletter, the National Co-op Update, and has written about dairy co-operatives (Greenwood, 1996a) Overall, as Cronan (2003) confirms, there is a deficit in Australia of academic work on the co-operative structure.

Summary

This chapter has reviewed selected literature about agricultural co-operatives and introduced some key concepts. These concepts are applied in parts of this thesis to help explain elements of the Western Australian agricultural co-operative sector story. The discussion of agricultural co-operative literature reveals that economically focused theory has dominated theory development in this area. The review identifies that the main trigger for establishing an agricultural co-operative is to address some form of market failure. Agricultural co-operatives have the capacity to counteract monopsony or monopoly situations; provide a missing or costly service and to reduce risk for producers. Much of the later theoretical work has been especially preoccupied with correcting professed structural deficits or inefficiencies of the agricultural co-operatives model, often using the IOF as a benchmark by which to

42 Founded in 1999, the Australian Centre for Co-operative Research and Development (ACCORD) was a joint venture between the University of Technology, Sydney (UTS) and Charles Sturt University (CSU) and the New South Wales State Government. Each partner contributed financially to its establishment (Australian Centre for Co-operative Research and Development, n.d.-a). ACCORD was formed to undertake research on and build awareness of the co-operative movement in Australia, including mutuals and the broader social economy (Australian Centre for Co-operative Research and Development, n.d.-a). In June 2005, ACCORD was unable to sustain itself financially, and the research centre closed.

evaluate the agricultural co-operative structure. Changes in the agricultural industry resulting from increasing industrialisation, combined with identified problems with the agricultural co-operative model, have led to recent literature that explores modified agricultural co-operative structures that import features of the IOF model, such as the NGC model.

The focus of earlier theoretical analysis by Sapiro and Nourse (cited in Cook, 1995; Torgerson et al., 1997), concerning the wider ability of agricultural co-operatives to generate public good by correcting market failure, and the capacity of the co-operative structure to vertically connect farmers in the supply chain, have become neglected areas of research for the co-operative structure. There is a scarcity of recent research on the external macro-economic, political and institutional environments that affect the agricultural co-operative structure.

This literature review suggests an over-reliance on agricultural economic theory for analysis of agricultural co-operatives. A concentration on economic analysis of agricultural co-operatives can lead to inappropriate and unhelpful assumptions about the nature of the agricultural co-operative and co-operative behaviour. Orthodox economic theory is unable to satisfactorily explain several features of contemporary agricultural co-operatives, such as possible non-economic motivations for being involved with an agricultural co-operative, the role of co-operative values within the organisation, or a long history of agricultural co-operatives as a type of farmer initiated social movement.⁴³ Further, the limitation of an economic approach prevents the development of a highly descriptive analysis of the relationship between agricultural co-operatives and their affiliated institutions, such as government agencies and a peak body representing the co-operative sector. Economic theory discounts these non-economic factors and as a result cannot develop a subtler understanding of the agricultural co-operative model and its behaviour in the social and economic arenas.

43 The concept of the agricultural co-operative sector as an expression of a social movement is examined in the UFCC case study in Chapter Seven. The social movement concept can also partially explain the minor revival in agricultural co-operatives in the latter part of the 1990s. As the influence of the market informs the development of agricultural and regional policy in Australia, some sectors of agriculture are bearing a greater economic and social burden resulting from agricultural restructuring than are other Australians. This uneven disadvantage in turn is stimulating a renewed interest among farmer groups in some sectors of the agricultural industry to evaluate the agricultural co-operative model as a strategy to alleviate hardship. Their activities can be viewed as an expression of a farmer initiated social movement.

Scattered amongst the recent literature have been calls for an interdisciplinary approach to enlarge theoretical and empirical understanding of agricultural co-operative behaviour. Torgerson et al. (1997) comment on the trend towards economic approaches to evaluate agricultural co-operatives, observing the narrowness of agricultural co-operative theory development resulting from this economic focus. Baarda (2001) lamented the limited approach to research on agricultural co-operatives, supporting an interdisciplinary slant to develop a broader knowledge of co-operatives and their role in a rapidly changing agricultural system. These requests have not been restricted to academics. Hassebrook, a co-author of a USDA report on the future of small farms (United States Department of Agriculture, 1998) and a co-operative member, disapproved of the business and economic focus of agricultural co-operatives, challenging Boards to also remember their social obligations as co-operatives (Hassebrook, n.d.).

In conclusion, there is a deficit in Australian research on agricultural co-operatives, particularly from perspectives outside the dominant agricultural economic orientation. Lastly, there is a need to undertake Australian research on agricultural co-operatives that does not concentrate solely on issues within the organisation. This thesis seeks to contribute to Australian research on agricultural co-operatives and the wider agricultural co-operative sector to address this shortfall.

CHAPTER THREE

Neoclassical Economic Doctrine, Australia's Form of Capitalism and Agricultural Co-operatives

Introduction

This chapter examines the implications of a quarter century of economic reform in the Australian agricultural industry and the outcomes of this reform for farmers and rural communities. The chapter commences by firstly exploring the key concepts underpinning neoclassical economics and neoliberalism. The chapter then sets out aspects of neoclassical economics and neoliberal concepts, policy and strategies that have explicit or unintended consequences on the viability of agricultural co-operatives in Western Australia. The chapter examines points of compatibility between neoliberal theory and co-operative theory to demonstrate that agricultural co-operatives can be a means to support rural communities through economic reform. The chapter concludes that persistent economic reform based on neoclassical economic theories has mixed outcomes for the contemporary agricultural co-operative model in Western Australia.

Neoclassical Economic Reform

Beeson (1999, p 1) maintains that the key elements of a developed or advanced capitalist system consist of 'market oriented commodity production, private ownership of the means of production, the selling of labour power, and individualistic, acquisitive behaviour'. According to Pusey (2003), several forms of developed capitalism are in place throughout the contemporary world. Various styles of capitalism, Pusey suggests, include the Dutch and German partnership form of capitalism, the Japanese model, the Mediterranean model and the form of capitalism implemented in various Asian countries. Variations in the implementation of these key features of capitalism suggest that countries adapt elements of capitalism to accommodate their domestic political, social and economic contexts and institutional

environment. Australia, along with other mostly English speaking nations, has chosen a 'libertarian model of free market capitalism' based on neoclassical economic theory over the last few decades (Pusey, 2003, p 9).

In conjunction with domestic reform within nation States based on the doctrines of neoclassical economics and neoliberalism, these theories have also shaped the outlook of globally focused institutions. These include the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank (Lawrence, 1998; Pritchard, 2000). Domestic and international arenas therefore mutually reinforce and strengthen neoclassical economic doctrines.

The Australian experience with economic reform was labelled as 'economic rationalism' (Pusey, 1991). Pusey (2003, p 9) defines economic rationalism as the '...assumption that economies, markets, money and prices can always, at least in principle, deliver better outcomes than states, governments, and the law', and, as a consequence, achieve human freedoms and social justice. Pusey (2003, p 9) further adds that the concept of economic rationalism assumes that the 'market provides the only practical means for setting values on anything'. In recent years, the internationally recognised terms 'neoliberalism', 'the market economy' or the 'free market' (Pusey, 2003; Stilwell, 2000) have superseded the distinctly Australian phrase of 'economic rationalism'. Whatever language is utilised to describe the ideology that initiated economic reform, the underpinning concepts persist in reaffirming the supremacy of the market in organising the economy. The neoclassical economic doctrine has garnered extensive backing in Australia by both economists and the public service bureaucracy responsible for industry policy and it permeates the nation's economic policy (Pusey, 1991). Further, these concepts are the platform for the dominant ideology in agricultural industry economic reform (Gray & Lawrence, 2001b; Lawrence, 1996; Pritchard, 2000).

Shift in Paradigm

Prior to adopting the present day form of capitalism based on neoclassical economic theory, Australia functioned under a Keynesian style of capitalism (Beeson & Cloney, 1997; Pusey, 1991; Stilwell, 2000). Keynesian capitalism rose to prominence in an era incorporating the Depression and the effects of two world wars, followed by a long post war boom (Mauldon & Schapper, 1974). Keynesians

favoured government initiated protectionist strategies, such as tariffs, subsidies and direct intervention in the market place by government. Quiggan (2001) argues that Keynesianism itself was a product of the failure of the initial form of the free market economy of the 19th century, due to internal and inherent instabilities of free market economics. As outlined in Chapter Four, the market failures of the 19th century market economy identified by Quiggan also gave birth to the co-operative model, including the agricultural co-operative, as a sophisticated adaptation to the free market (Craig, 1993).

By the 1970s, the prevailing Keynesian economic theory became discredited. Economic conditions in Australia and internationally were characterised by the rise of very high inflation and unemployment, combined with rapid oil price rises, poor exports and overvalued exchange rates, and gave rise to economic instability (Beeson, 1999; Mauldon & Schapper, 1974; Pusey, 1991; Stilwell, 2000). These economic factors also occurred at a time when increasing globalisation in trade and capital demanded a less restrictive regulatory environment. Collectively these multiple factors presented a trigger for the counter theory of neoclassical economics to emerge. A cyclical pattern can be detected in these economic shifts, from a 19th century market economy to Keynesianism, to a period in which several western countries, including Australia, again adopted a capitalist system informed by classical economic theory.

According to Beeson (1999) and Pusey (2003), Australia has implemented neoclassical economic reform with great zeal.⁴⁴ Commencing with the Whitlam Labor Government in the early 1970s establishing the Industries Assistance Commission in 1973, followed by the Industry Commission (1991), successive Australian governments have continued with this process of domestic economic reform across a range of industries, including agriculture. The introduction of the National Competition Policy in the mid 1990s following the Hilmer Report (1993), together with the Productivity Commission report (2000), confirmed this ongoing ideological commitment to neoclassical economic doctrines. In the prevailing political environment, there is every suggestion that future Australian governments of both persuasions will undoubtedly continue to pursue economic policies in harmony with this philosophy.

44 Pusey (2003) notes that New Zealand expressed even greater enthusiasm for the theories.

Economic Reform in the Agricultural Industry

During the period in which Keynesianism guided Australian economic policy, the agricultural industry gained an importance beyond its mere commercial function (Botteril, 2003). This is partly attributed to the significant fall in agricultural commodity prices after the Depression, followed by low commodity production during and immediately after World War II (Mauldon & Schapper, 1974). Other factors include the potential of the industry as a source of food for its own population and internationally and the vulnerability of the industry to the vagaries of the climate. The ability of the agricultural industry, as an export industry, to contribute strongly to Australia's gross domestic product, and the close cultural connection with farming between rural and urban Australians, also stimulated a firm association between those involved with the agricultural industry and governments (Lawrence, 1987; Mauldon & Schapper, 1974). Consequently, this mutually agreed outlook generated an agricultural industry policy position with a range of interventionist and protectionist strategies to safeguard the industry's ability to ensure farmers were able to continue this economically, culturally and socially important function (Lawrence, 1987).

Due to the factors identified earlier, by the 1970s, Keynesianism agricultural policy gave way to one based on neoclassical economic theory. The theory argues that competitive market forces will shape the future of the agricultural industry into an enhanced competitor in the international market, and this will result in increased farmers' incomes. The role of government, according to the theory, is cast as strategic and intervention is limited to what is permissible within market principles (World Trade Organisation, 2002). At the farm level the theory assumes that a typical farm household will follow a single path of development to intensive, commercial farming based on the adoption of modern technology (Lawrence, 1987). Further, the theory maintains that the consumer will also benefit from higher quality and lower priced food and fibre products.

To apply the theory, contemporary Australian agricultural public policy concentrates on a number of multi-tiered strategies designed to increase farm productivity to enable Australian farmers to compete in a globalised market. Approaches at the macro-economic level focus on working with other like-minded countries to develop a market-oriented global agricultural trading system (World

Trade Organisation, 2002).⁴⁵ At the industry-wide level, many of the SMAs in most agricultural sectors have been dismantled under a policy of government withdrawal from agricultural marketing and handling activities to facilitate a competitive market in these areas (Productivity Commission, 2000). At this level, other strategies encourage industry innovation; the development of industry leadership skills to assist the industry determine its own future, and the promotion of the supply chain concept between farmers, processors, and other actors (Botterill, 2003). At the farm level, agricultural policy approaches focus on 'capacity building' among farmers (Botterill, 2003). Strategies include developing business and risk management skills to reduce on-farm costs and capture economies of scale in production via adopting new technologies. Concurrently, other strategies focus on farm exit programs for farming families deemed less efficient in order to facilitate the redistribution of farm enterprises to more competent farm operators (Botteril, 2003).

Agricultural industry policy also seeks to work in partnership with regional and local communities to address natural resource management and wider rural issues, overlapping to some extent, agricultural policy with regional policy. Other macro-level policies impacting on rural and regional centres and the agricultural industry include the withdrawal of government services from country towns (Gray & Lawrence, 2001b), the privatisation of public assets and tariff reduction (Stilwell, 2000) and the retreat from proactive regional development strategies in non-metropolitan Australia and the agricultural industry (Tonts, 1998).

45 The theoretical basis of Australia's approach to agricultural policy contrasts with other industrialised countries. While adopting the rhetoric of neoliberalism, the United States has retained domestic agricultural subsidies and protectionism, as evidenced by the 2002 US Farm Act (Nuthall, Osborn, Dobie, & Fine, 2002). Europe has the Common Agricultural Policy (CAP) underpinned by the concept of multifunctionality. CAP argues that agriculture has a cultural and social meaning which outweighs its economic function. Agricultural policies based on this premise, from the viewpoint of Australia's agricultural policy makers, have highly distorting impacts on the global agricultural market, with particularly unfavourable effects for exporting countries such as Australia. The Department of Agriculture Strategic Plan 2003-2013 (Western Australian Department of Agriculture, n.d.) states that the 'concept of multifunctionality in agriculture will see countries supporting their agricultural businesses for non-economic objectives. This will continue to distort markets, making it increasingly difficult to gain entry to some major markets.' The European and United States approaches are examples of industrialised economies, on the one hand, supporting the general direction of WTO agricultural policy, while concurrently developing domestic agricultural policies that are inconsistent with neoclassical economic theory. In contrast, Australia has progressed with implementing neoliberal policies in agriculture with considerable commitment. For an overview of the different orientations of these arguments and their implications for agricultural industries in different countries and globally, see, for example, Botteril (2003), Coutsouradis (2000), Wynen (2002), European Commission Directorate-General for Agriculture and Rural Development (1999).

Outcomes of Contemporary Agricultural Policy

Keogh's (2004) overview of the present state of the Australian agricultural industry confirms that the doctrine of neoclassical economics in agricultural policy has resulted in a substantial change in the structure of the agricultural industry. These changes include the introduction of new technology in machinery and agricultural science and the requirement for higher levels of capital on-farm. Farm business structures have altered and contract farming has entered some sectors of the industry. Agricultural restructuring has resulted in a trend towards a two-tiered family farm based production structure (Black, Duff, Saggars, & Baines, 2000; Keogh, 2004).⁴⁶ One trend is towards larger scale farm operators seeking production economies of scale via farm consolidation, absorbing farmland as some farm families exit the industry. A secondary trend is the subdivision of agricultural land into small scale and possibly non-commercial farms in coastal and outer areas of metropolitan and regional centres. Other adjustments are evident, such as increasing vertical integration of the agri-food chain, and growing concentration in the processing and retailing industries. More recently, environmental degradation has resulted in modified farm production and management practices (Black et al., 2000). Lawrence (1987) highlighted many of the anticipated implications of these changes in the mid 1980s and his subsequent writings confirm the depth and impact of agricultural industry restructuring on farming families and communities.⁴⁷

There are approximately 110,000 commercial farms in Australia, with just under 14,000 family farms in Western Australia (Australian Bureau of Statistics, 2001).⁴⁸ The number of farm enterprises declined by an average of 1.3 per cent per annum in the ten years to 1994-95 (Black et al., 2000), citing Australian Bureau of Statistics (1998), although other industry commentators suggest that the number of farms in Australia has been falling by around 2 per cent per annum (Interviewee 688, 2001; Interviewee 689, 2002). Keogh (2004), also quoting ABS data over several

46 Chapter Two discussed the family farm based nature of Australian farming, comprising about 95 per cent of all farm enterprises.

47 Lawrence and Hungerford (1996; 2000) and Buttel (2000) summarise various theories of rural restructuring, such as fordism and post-fordism, the third food regime, flexible specialisation, subsumption, survival and synthetic schools and regulation theory, each of which seeks to account for these changes in rural communities and agricultural industries.

48 Black et al. (2000) and Tonts (1998) outline changes that have occurred in gathering ABS data, which contributes to the difficulty in quantifying an aggregate number of Australian farm enterprises. ABARE data incorporates broad acre farms and excludes intensive farm enterprises such as dairy and horticulture, which further complicates quantifying farm enterprises.

years, estimates that the number of 'commercial' Australian farms has fallen by approximately 15 per cent over the last decade or so.

While there is a decline in the number of farmers remaining in the industry, ABARE (n.d.) confirms that farm production has been improving in volume and value over the last decade.⁴⁹ Increasing production in crop yield was the major contributor to the rise in value (Australian Bureau of Agricultural and Resource Economics, n.d.). This indicates that Australian farmers have been achieving greater on-farm efficiencies, as there is an increase in commodity output even though there are fewer farmers in the industry. Further, with approximately 80 per cent of Australian commodities exported and contributing to more than one quarter of Australia's total exports (World Trade Organisation, 2002), Australian farmers are successfully competing in the international market place.

The owners and managers of farm enterprises remaining in the agricultural industry have negotiated their way through two decades of agricultural industry restructuring. As a result, they have achieved on-farm efficiencies to lower the costs of production, improve productivity, and be internationally competitive. These are predicted outcomes of an agricultural policy underpinned by neoclassical economic theory, and lend support the wisdom of the adoption of this policy approach.

Downside of Industry Restructuring

Yet, many farmers themselves are not benefiting from the predicted and expected prosperity in spite of implementing the range of strategies outlined above. Paradoxically, notwithstanding these improvements in international competitiveness, and on-farm efficiencies and rising productivity, Australian farmers continue to encounter low levels of farm profitability. Keogh states that:

As a generalisation, the 1990s are considered to have been a period of low profitability for farmers in Australia, especially the early part of the decade, and especially relative to previous decades. As a simple indicator of this, over the 1980s and 1990s, average farm operating costs increased sevenfold while average farm cash operating surpluses increased only threefold. (Keogh, 2004, p 4)

⁴⁹ The extended drought period in recent years weakened this trend in the short term.

Despite the sustained growth in farm productivity, commodity prices received by Australian farmers have not kept pace with the rising prices of farm inputs, leading to low farm enterprise profitability. This ratio in the price of outputs to the costs of inputs is referred to as 'cost price squeeze'. Indeed, the Western Australian Department of Agriculture does not anticipate any improvement in this area, as it states in its Strategic Plan 2003-2013 that:

The cost-price squeeze will continue to affect farm profitability. Real prices for farm commodities will continue to decline. Price inflation will continue to affect the prices paid by farmers for their inputs.' (Western Australian Department of Agriculture, n.d., p 4)

Keogh (2004) further acknowledges the increasing trend for Australian farms to rely on off-farm income to remain financially viable. This points to a further irony - Australian farmers who have remained in the industry have, willingly or reluctantly, adopted the practices of industry policy, which have led to increased productivity, efficiency, economies of scale and international competitiveness, yet have not been able to increase their farm enterprise levels of profitability. Indeed, profitability has fallen to the extent that many farm families are required to augment their incomes off-farm to manage financially. Clearly, despite these policies and strategies, farmers themselves have not been financially rewarded by industry policy based on neoclassical economic doctrines. Those farmers remaining in the industry have implemented the range of agricultural industry policies urged upon them by successive governments but have not necessarily reaped the alleged financial benefits of these new practices.

Undoubtedly, economic reform has had significant and mixed impact at the individual farm enterprise level. Concurrently, other links in the supply chain comprising the supply of various farm inputs and post-farm activities have also experienced significant restructuring. In pursuing economies of scale, the agribusiness, food processing and retail grocery industries have experienced substantial industry consolidation to the extent that a declining number of major companies now dominate these industry sectors. In the retail industry, a heavily concentrated environment has arisen with two or three major supermarket chains dominating the grocery industry (Joint Select Committee on the Retailing Sector, 1999).

Several of the new companies formed following the dismantling of SMAs are also undergoing a noticeable consolidation. The New South Wales based grain handler and marketer, GrainCorp, merged with Queensland's Grainco in late 2003 (Marshall, 2003), resulting in a consolidated company involved in grain storage and export from Queensland to Victoria (Graincorp, 2003). Western Australia's CBH's merger with the Grain Pool to achieve economies of scale in the storage, handling and exporting of grain (Bolt, 2002) is another contemporary illustration of this phenomenon.⁵⁰

In food processing, the dairy processing industry is especially prone to consolidation, with the New Zealand dairy processing co-operative Fonterra intricately involved with Australian dairy processors (Farmers Weekly, 2002). There is growing interest by non-dairy food manufacturing companies to buy into the dairy processing industry, further reducing the number of companies operating in this sector of the supply chain (Sydney Morning Herald, 2004).

In the farm inputs sector, a similar pattern is emerging. This is illustrated by the merger of the publicly listed company, Incitec, and the former agricultural fertiliser supply co-operative, Pivot (Incitec Pivot Ltd, 2002). The resulting listed company controls approximately 65 per cent of the eastern States of Australia's fertiliser business (Daily News, 2003).

The emerging pattern in the agricultural supply chain is that the agricultural production sector, comprising in Western Australia of approximately 14,000 family farms and approximately 110,000 nationally, sits in the middle of a supply chain in which all other non-farm links shift towards consolidation controlled by a few large national or multinational companies. As Drabenstott (1999) notes, the supply chain is typically dominated and controlled by a dominant player in the chain. Clearly, the on-farm production sector, depicted by the highly atomised and low profit family structure, is the weakened link in the supply chain, despite its demonstrated efficiencies, economies of scale and international competitiveness.

While increasing consolidation of the non-farm sectors of the agricultural supply chain is leading to fewer corporations and therefore less competition, it is also

50 As discussed in Chapter Six, many of the dismantled SMAs have moved to a non-listed corporate business structure comprised mostly of farmer shareholders. Some of these new companies are now facing pressure to list on the Australian Stock Exchange, removing farmer control as non-farm shareholders purchase shares.

possible that they are less efficient than the on-farm production sector. As Keogh (2004) states, the cost of farm inputs are estimated to have increased seven-fold over the 1980s and 1990s while farm cash operating surpluses have increased only three-fold. This suggests that the consolidated farm supply industries, comprising fewer companies, are not under the same pressure as farmers to ensure that their prices are actually competitive.

Additionally, the inability of farm cash operating surpluses to keep pace with increasing farm input costs indicates that the consolidated food processing and retail grocery sector are able to employ market power to continue to pay low prices to farmers for their commodities. This again suggests that the consolidation of the post-farm gate links in the agricultural chain have resulted in these companies becoming less competitive. At some point, unchecked economies of scale result in industry consolidation to the point where there are too few large companies to enable a competitive environment. Therefore, while on-farm efficiency has increased via skills development, economies of scale and use of technologies, leading to improved productivity and international competitiveness, it is not clear if the same can be claimed for the other sectors of the agricultural supply chain. As James (2004, p 66) states, 'The top corporations are getting bigger, but they are not getting more financially efficient'. In some cases, non-farm links of the agricultural supply chain in Australia have become inefficient and, in the process, trapped Australian farmers in a cost price squeeze (James, 2004).

Clearly, restructuring in agriculture has not produced the theoretical outcome of a competitive market in all links in the agricultural supply chain. Further, one sector of the supply chain, the on-farm agricultural production sector, has been manoeuvred into a position in which it has to endure most of the burden of this failure. It is evident that Australian farmers and rural communities are under stress after a quarter century of economic reform.

Neoliberal public policy admits to some shortfalls, acknowledging that certain individuals or sections of society may acquire the benefits of neoclassical economic restructuring later than others (Productivity Commission, 1999). However, the theory and its advocates maintain that the 'trickle down' effect will ensure that in time the market will distribute social benefits all sections of society (Productivity Commission, 1999). While the Productivity Commission report into the

effects of the National Competition Policy on rural and regional Australia concedes some downsides after decades of economic reform in rural and regional Australia (Productivity Commission, 1999), it urges rural people to be patient about the inevitable social and economic benefits that will arise in the future from the difficult adjustment period. This sentiment is consistent with orthodox economic theory, in that the disadvantage endured by many farmers is presented as a transitory problem, as theoretically the free market process, in the long-term, benefits the economy and society, including those in rural communities.

The impact of agricultural restructuring on rural communities, such as farm consolidation into larger farm operations, coupled with a decline in the number of remaining farm operators and the exodus of displaced farmers, has been commented on by several academics, such as Tonts and Black (2001), Tonts (2000), Pritchard (1996) and Lawrence (1992). It is well documented that these policies have resulted in unprecedented economic and social changes in rural communities in the last few decades with uneven outcomes (see, for example, Cheers, 1995; Gray, 1994; Gray & Lawrence, 2001b; Lawrence, 1990; Lawrence, Gray, & Stehlik, 1998; Pritchard, 2000). Theorists researching the agricultural industry internationally and within the Australasian region broadly agree on the considerable transformation in the economic and social dimensions of agriculturally dependent rural communities, family farms and agriculture (Lawrence, 1987; Lawrence & Hungerford, 1994). These writers generally concur that neoclassical economic philosophy is a significant factor contributing to the changes facing agriculture.

Market Failure and the Agricultural Co-operative Model

The effect of market driven agricultural policy at the on-farm business level adds weight to Quiggan's argument that neoliberalism is inherently an unstable system (Quiggan, 2001). Farmers are in the midst of a pervasive form of market failure arising from the market power of the non-farm production sectors in the national and international agribusiness supply chain. Yet the underlying message from the then deputy Prime Minister, John Anderson, (1999) to the 1999 Regional Australia Summit, was for a recommitment to neoliberal influenced agricultural industry policy. Further, Anderson called for rural communities to fix these problems by stating that 'the individual solutions for individual communities can

only come from within those communities' (Anderson, 1999, p 6). Rural communities are urged to mobilise their own resources and inventiveness as a self-help strategy to address the difficulties they are experiencing. Other strategies include facilitating local investment and business activities and promoting links between industry, government and communities to stimulate self-reliant communities and unleash their potential for economic development (Regional Australia Summit, 2000). The subtext appears to be that the problem experienced by agriculturally dependent rural communities is not the theoretical basis informing agricultural policy; but that rural people have the wrong mindset and this poor attitude is the impediment that blocks them from being receptive to new opportunities emanating from economic reform (Gray & Lawrence, 2001b).

The current phase of economic public policy duplicates the philosophy of classical 19th century economic theory. This 'first' phase also triggered similar hardship for some sectors of society. The agricultural co-operative structure evolved in the 19th century in response to the downside of a free market economy and small government evolving from the industrial revolution. Agricultural co-operatives have a particularly long history as a strategy to address the accumulation of market power by other powerful entities in the agricultural supply chain by providing farmers with a mechanism to achieve economies of scale in farm supplies or commodity marketing (Cobia, 1989; Craig, 1993; Hansmann, 1996). The subsequent dominance of the agricultural co-operative structure in Europe and North America indicates that it fits the agricultural industry particularly well. Given that the agricultural co-operative evolved as a response to the initial period of classical economic theory, similar conditions evolving from economic philosophies in the late 20th century suggest a possible 'rebirth' of agricultural co-operatives.

The repetition of economic adversity in the present day agricultural industry partly explains the recent mini-revival in co-operatives in Western Australia. The successful examples of agricultural co-operatives, such as the UFCC described briefly in Chapter One, illustrate this.⁵¹ The UFCC, a relatively young organisation formed in the contemporary economic environment, demonstrates the ability of the agricultural co-operative model to continue with the traditional agricultural co-operative role of ameliorating some form of market failure. By amalgamating the

51 The UFCC is analysed in detail in Chapters Seven and Eight.

collective resources of atomistic farmer members, the UFCC was able to harness economies of scale to source chemicals and counter the escalating costs commanded by agribusiness corporations for agricultural fertiliser and chemicals. The UFCC experience suggests that the agricultural co-operative model, therefore, remains a valid and legitimate mechanism at the beginning of the 21st century to address the types of market failure problems arising from economic reform.

Despite the merits and potential of the agricultural co-operative model, the Australian government's approach to agricultural industry restructuring does not readily present the co-operative business model as an option for farmers to address economic adversity arising from market failure. In practice, however, contemporary policy makers, while perhaps understanding the downside, do not take neoliberal policy to its logical extreme at a program level. After two decades or so of restructuring, there is evidence that Australian public policy makers are now seeking an approach that can lessen the negative consequences of economic reform on marginalised sections of society, including those living in rural and regional areas of Australia. The disparity in economic and social well-being between rural and urban communities after decades of restructuring has led to an increased awareness of rural community well-being (Anderson & Chaffey, 2000; Black et al., 2000; Cheers, 1995; Gray, 1994; Gray & Lawrence, 2001a; Kingma, Crellin, & Hoitink, 1999; Lawrence, 1995; Haslam McKenzie, 1999). The Productivity Commission (2003) report into social capital, which suggests that there is capacity for Government to be more aware of the role of social capital in effective policy development, demonstrates this recently evolving 'softer' side of economic policy.⁵² Further, the Productivity Commission's 2002-2003 Annual Report (2004), while continuing to recommend on-going domestic economic reform, suggests subsequent reforms recognise the human and environmental consequences of these policies. This is a significant conceptual move from early policy approaches that focused on hard-edged economic issues, which in the rural context, often resulted in harmful economic and social consequences for farming families and rural and regional communities. This

52 The Productivity Commission report (2003) on social capital also recognises that some Government activities actually undermine social capital within a community, diminishing a community's ability to implement the self-help qualities of its members, a key concept in neoliberal theory. However, the Productivity Commission report, representing an essentially neoliberal analysis of the concept of social capital, requires a cautious approach. To illustrate, the Productivity Commission report explores the concept of social capital as it might be a useful mechanism for reducing public expenditure.

recognition of the disadvantages of economic reform on farming communities has several implications for the agricultural co-operative business structure.

The Interface of Neoclassical Economic Theory and Co-operative Theory

Three key elements underline the divide between neoclassical economic theory and co-operative theory. The first element of neoliberalism that has implications for the agricultural co-operative structure is the concept of individualism. Implicit in neoclassical economic theory is a particular understanding of human behaviour as rational, self interested, and individualistic (Quiggan, 2001). Neoliberalism assumes individuals are in competition with each other (Mooney & Gray, 2002). Immediately it is apparent that there is a conflict between the neoclassical economic concept of individualism and co-operative theory which is built on a view of human behaviour that embraces a collaborative approach to solve common problems (Craig, 1993). The notion of ‘co-operativeness’ is therefore problematical in neoliberalism, as acting co-operatively is contrary to individualism. When the wider public policy environment privileges individualism above co-operative values, a fundamental element of the agricultural co-operative business structure is jeopardised.

Aligned to the value of individualism is the neoliberal concept of self-help, the second element of interest to the agricultural co-operative model. In the context of agricultural industry policy and regional policy, the concept of self-help places the responsibility on rural people to personally overcome their own economic and social obstacles. This policy implies a belief that it is ultimately the responsibility of rural communities to advance their own economic futures. Government involvement in these matters is construed as an inhibitor to individual expression of self-help. Government therefore should withdraw from the provision of these services to liberate individuals’ self-help ethos to overcome the barriers that formerly restricted their options (Gray and Lawrence, 2001b).⁵³ Gray and Lawrence (2001b) cite Landcare is an example of a government initiated approach to stimulate a collective

⁵³ This neoliberal understanding of self-help removes the possibility of structural explanations contributing to the difficulties facing the agricultural industry and rural people, placing responsibility on human agency (Gray & Lawrence, 2001b).

self-help response among rural people to address environmental problems.⁵⁴ Marsh and Pannell (1998) note that State Departments of Agriculture now facilitate the formation of farmer groups, rather than one-to-one interaction, as a strategy for agricultural extension, particularly for human ‘capacity building’. The public policy strategies of local communities working together in a self-help ethos to facilitate revitalisation of small towns, rather than demand State support to resolve their problems, also illustrate this approach.

Interestingly, the self-help concept of neoliberalism dovetails with the mutual self-help concept embedded in co-operative values. The co-operative business structure, built on the concept of mutual self-help, can also contribute to endogenous rural community based development. The overlap of the neoliberal concept of self-help and mutual self-help in co-operative values is a potential argument for public policy support to create the environment to stimulate the uptake of the agricultural co-operative structure. These two concepts enable individual farmers to work collectively to help themselves cope with the market failure consequences of agricultural restructuring.⁵⁵

The third feature of neoclassical economic theory of interest to the agricultural co-operative business structure is the profit maximising IOF business structure. As argued in the previous chapter, fundamental differences between the IOF and the agricultural co-operative structure diminish the intrinsic value of the co-operative model. However, this chapter has argued that the co-operative model has a number of features that make it particularly suited to a market economy environment. The model is able to address market failure arising from the downside agricultural industry policy and therefore make a positive social and economic contribution to rural communities.

Agricultural Co-operatives as an Agricultural Industry Policy Tool

The implementation of free market public policies in agriculture and regional Australia has created a paradoxical situation in which the co-operative business model is a valuable mechanism to grasp opportunities created by economic reform

54 Landcare also reflects a relatively recent addition of environmental sustainability to the economic competitiveness of agricultural policy (Western Australian Department of Agriculture, n.d.).

55 The public policy environment for agricultural co-operatives is discussed in Chapter Six.

while also minimising the downside of restructuring. Gray and Lawrence (2001b) argue that Australian public policy makers are seeking strategies to assist rural and agricultural sectors to achieve the benefits of agricultural and rural restructuring by adopting collective approaches to implement a neoclassical economic reform agenda built around individualism. The agricultural co-operative is an ideal vehicle to achieve this policy direction.

By reframing the agricultural co-operative structure in neoliberal discourse, the formation of an agricultural co-operative can be interpreted as the rational action of commercially minded independent farmers collaborating with similarly self-interested farmers with the objective of maximising their individual benefit. In circumstances where agricultural restructuring has resulted in some negative social or economic outcome, the formation of a co-operative can be viewed as a self-help strategy by individual farmers to address the downsides of economic reform. Additionally, while the co-operative enhances the economic outcomes of the individual farm entity as a business, it concurrently meets a neoliberal ideal of assisting in social justice by facilitating the social and economic well-being of the farming family. The co-operative structure can therefore rationalise minimal government intervention in resolving economic or social inequities arising from economic policies because rural people are able to use the co-operative structure as a self-help mechanism to overcome these deficits.

Continuing this perspective, agricultural co-operatives can be presented as a tool to participate in government's 'mutual obligation' contract with rural communities. Consistent with Gray and Lawrence's (2001b) work, Yeatman (1999, p 258) examines the concept of 'mutual obligation', in which individuals 'should make a contribution to society in exchange for the support society gives them'. Mutual obligation is a reciprocated arrangement, where government provides support while the individual makes an effort to become self-reliant. Communities can use the co-operative model as a demonstration of their self-help orientation, in exchange for the government providing the necessary seed funding to enable them to establish the feasibility of the co-operative structure for their particular problem. An illustration of this form of community self-help supported by small seed funding from government is the collective effort of various individuals connected to the proposed Harvest Highway co-operative. This initiative is a local response by a range of actors to the

economic adversity experienced by small tourist and agricultural produce businesses in a regional area in Western Australia's southwest. Under the Commonwealth Department of Transport and Regional Services program of 'Stronger Regions, A Stronger Australia' (Commonwealth Department of Transport and Regional Services, n.d.), this initiative has gained funds to explore the feasibility of a co-operative structure for their venture.

Lastly, the concept of 'freedom to choose' suggests that the broader liberal philosophy of an individual's right to choose a business structure can support the adoption of the agricultural co-operative structure. Consequently, it is acceptable if individual farmers voluntarily choose a co-operative structure as the means by which they wish to engage commercially with other sectors of the economy.

Conclusion

This chapter explored the impact of two decades of agricultural industry restructuring on the industry and identified mixed outcomes for farmers and rural communities. The chapter argued that the agricultural co-operative model can provide a vehicle to capture opportunities as well as address some of the downside of restructuring. Several key concepts underpinning neoclassical economics and neoliberalism were examined to identify those that complement co-operative theory. Identifying this theoretical interface enabled agricultural co-operatives to be reframed as a strategy that is compatible with neoliberal assumptions of the market and the economic behaviour of individuals, with the added benefit of ensuring the social well-being of the farm family with minimal intervention of government. This approach enabled new insights that validate the structure in a public policy context, although there is some risk in perceiving the co-operative as potentially complicit in the reform agenda of government withdrawal of services in rural and regional areas.

In conclusion, neoliberal theory and the accompanying reform based on these notions provide some potential opportunities to facilitate the adoption of the agricultural co-operative structure. However, the ideological challenge of neoliberal theory to the fundamental values base of the co-operative structure, while subtle, is potentially very damaging for the future of the co-operative structure in agriculture. Fostering co-operativeness among producers in order to participate in the marketplace can only be achieved if neoliberal policies acknowledge the importance

of co-operative behaviour and the social foundations that facilitate this behaviour. The contradiction between neoliberal notions of self-interest and market driven behaviour on the one hand and developing a business structure based on collective action is clearly apparent. While a public policy argument can be made to support agricultural co-operative development as a tool to stimulate self-help, it does not compensate for a strategy for sustainable co-operative development. Clearly, the agricultural co-operative structure has proven its legitimacy as a structure that historically and currently serves agriculture well. The task, expanded upon in Chapter Six, is to identify how this intrinsic value can be recognised in a broader theoretical context that can then facilitate a public policy position for the agricultural co-operative structure.

CHAPTER FOUR

Western Australia's Agricultural Co-operative History

Introduction

This chapter reviews the history of the agricultural co-operative movement in Western Australia. While the focus of this thesis is on the contemporary era, particularly in the last decade or so, there is a strong, but arguably not well-understood, historical dimension to the Western Australian co-operative movement. This chapter reveals that the severe economic and social conditions in rural and regional Western Australia during the early decades of the 20th century gave rise to the first agricultural co-operatives. These difficult circumstances nurtured the co-operative business model and subsequently agricultural co-operatives evolved into an economically strong and politically influential Western Australian agricultural co-operative sector up until at least the late 1970s.

Historical Accounts of the Western Australian Co-operative Movement

There is relatively little secondary information available on the development of the Western Australian co-operative movement and the agricultural co-operative story. Sandford's (1955) account of the co-operative movement in Western Australia is the most detailed. He describes the early foundations of the co-operative movement as it grew alongside an infant agricultural industry establishing itself under primitive conditions. Of significance is his account of the genesis of the most well known agricultural co-operative in Western Australia - Westralian Farmers Co-operative - that later converted to the corporation, Wesfarmers.

Smith (1984) also briefly recounted some of the early agricultural co-operative activity in the State.⁵⁶ The focus of his work was much more on the growth

⁵⁶ According to Munro (2003), this book was completed in the late 1970s although it was not published until the mid 1980s.

and logistical development of Westralian Farmers Co-operative, which had commissioned his book. Co-operative Bulk Handling has produced a history of its background which sheds minimal light on the development of the Western Australian co-operative sector apart from confirming that CBH was based on the principles of the Rochdale model of 'one man one vote, irrespective of the volume of business conducted with no racial, political or religious bias' (Ayris, 1999, p 12). The Geraldton Fishermens' Co-operative also published a history to celebrate its 50th anniversary (H. Gray, 2000), again focusing predominantly on the logistical aspects of establishing and sustaining the co-operative in regional Western Australia.

This chapter derives much of its information on two extensive personal interviews with Mr Don Munro. Munro's involvement with the Western Australian co-operative sector commenced in the 1960s, when he began providing accountancy services to Westralian Farmers Co-operative members (Munro, 2003). His first exposure to agricultural co-operatives was in finalising the operations of many rural co-operatives that were no longer operational. His association with the Western Australian agricultural co-operative sector continued when he left Westralian Farmers Co-operative with, according to Munro, their blessing and acknowledged support, and established an accountancy firm specialising in the agricultural industry and, in particular, agricultural co-operatives. The Co-operative Federation of Western Australia (CFWA), the peak body for the Western Australian co-operative movement, subsequently contracted his accountancy firm to provide secretariat services until 1996, when the CFWA appointed a full-time Executive Officer.

Munro's early connection with the co-operative movement overlapped the last years of several Western Australia 'co-operators'⁵⁷ who were involved with the first co-operative wave commencing around the time of World War 1. He spoke in detail of his exposure to the idealism and enthusiasm that motivated these original 'co-operative champions'⁵⁸ to form the first co-operatives in Western Australia. He commented that he felt privileged to share in 'the wonder and values base of the co-operative movement' as embodied by the founding agricultural co-operators in

57 Munro used the term 'co-operators', which is not commonly used in contemporary Western Australian agricultural co-operative discourse. Craig (1993) also uses this term.

58 The term 'co-operative champion' is adopted from Craig (1993) and is well understood as a concept by interviewees.

Western Australia, such as Harper, Thomson, Ashton and others from that era.⁵⁹ Arguably, Munro is a bridge between the original Western Australian agricultural co-operative movement and the present day era of agricultural co-operatives.

The Early Development of the Western Australian Agricultural Co-operative Sector

The early history of the Western Australian co-operative movement is a story of the newly evolving agricultural industry and of the adaptation of a business structure which itself was in its infancy. The emerging co-operative movement in Western Australia is a distinctive example of co-operative development (Munro, 2003). The closeness between the agricultural industry and the co-operative model resulted in the Western Australian co-operative movement being essentially one based on the agricultural industry. While the first chapter differentiated and defined the terms of the 'co-operative movement' and the 'agricultural co-operative sector', the beginning of the Western Australian co-operative movement is also the history of the agricultural co-operative sector. The formative and ongoing influence and dominance of the agricultural co-operative sector on the overall Western Australian co-operative movement is undeniable. The divergence of the Western Australian agricultural co-operative sector and the wider co-operative movement only occurred in the latter half of the 20th century when a number of metropolitan based co-operatives commenced in Western Australia. However, agricultural and regional co-operatives continue to dominate the contemporary Western Australian co-operative movement as evidenced by the number of agricultural or regionally based co-operatives that are members of the CFWA.

The literature contains several references to early agricultural co-operative activity in Western Australia. Kenyon (1983, p 49) states that rural co-operatives were in operation in Western Australia by 1859. The Swan district was exploring the formation of co-operatives as early as 1897 to 'prevent a glut of grapes and to ensure

⁵⁹ See Sandford (1955) for further information on the role of these key individuals in the early Western Australian agricultural co-operative sector.

the making of wine of a high and uniform grade on a large scale...' (Lindley-Cowen, 1897, p 158).⁶⁰ Smith (1984, p 115) refers to the existence of fruit co-operatives in the early 1900s with a reasonable network of co-operative grower packing sheds and export activities in place in the 1920s (K. Smith, 1984, p 116). Some dairy co-operatives were also operational, with the Bunbury Butter Co-operative registered in 1908 (Western Australian Department of Consumer and Employment Protection, 2005b).

These early Western Australian agricultural co-operatives focused on two activities. Co-operatives either provided farm services or inputs at near cost; or undertook the marketing, handling or value adding of commodities to achieve the best possible price for members. These early co-operatives provided a service or infrastructure which was lacking in the newly evolving agricultural industry, or were established in situations where farmers were economically disadvantaged. This is consistent with agricultural economic co-operative theory, in which agricultural co-operatives are created to either capture economies of scale or address some form of market failure (Cobia, 1989).

Sandford (1955) argues that the first co-operative champions such as Harper and Thomson recognised that in order to support farmers in their efforts to establish and expand the agricultural industry, the industry had to embrace the co-operative model. Undoubtedly, the influence of the first co-operative champions was an essential component in the development of the agricultural co-operative sector in Western Australia. Co-operative champions, both theorists and activists, were central catalysts in spreading the co-operative ideal and motivating farmers to form co-operatives (Munro, 2003; Sandford, 1955; K. Smith, 1984). Sandford writes

...three men, Walter Harper, Tom Bath and WD Johnson, have been the outstanding figures in the Western Australian co-operative movement. Harper primarily a businessman with a sense of trusteeship and the prestige of a name long famous in Western

60 At the time Lindley-Cowen was writing, in the last years of the 19th century, the co-operative wineries had not been established. He cited Harper (the father of Walter Harper who in turn is the father of the Western Australian co-operative movement), who warned that the industry was short-sighted in not forming co-operatives. Harper recounted the experiences of Californian, Victorian and South Australian grape growers where '[the] growers, in fact, had to come to the position of working for the benefit of those who were enabled to become monopolists, because those who had grapes to sell were without the means of turning them into wine' (Lindley-Cowen, 1897, p 158). The similarity of this story at the end of the 19th century and that of grape growers in Australia at the beginning of the 21st century is striking.

Australia behind him, Bath an idealist in the practical sense of the word and Johnson, the enthusiast, able speaker and politician.... (Sandford, 1955, p 84)

Munro (2003) adds that Harper⁶¹ in particular had established links with agriculture via his own family farm and therefore carried substantial credibility when rallying farmers to the co-operative ideal. Sandford further writes 'co-operation was undoubtedly something of a crusade at the time and the example of the Rochdale pioneers in England was bandied about by [co-operative] organisers in a way that has not taken place since' (Sandford, 1955, p 45). Munro (2003), based on personal contact with some of these first co-operative champions, states 'they had a dream and wanted to share that dream with other farmers' . The commitment and idealism of these co-operative champions as an element in the development of a co-operative movement is highly consistent with sociologically informed co-operative theory (Craig, 1993).

The Rochdale consumer co-operative model, imported from the United Kingdom, provided the guiding structure and philosophy for the champions striving to develop the Western Australian agricultural co-operative sector. The traditional Rochdale model is based on many retail co-operatives owning a single wholesale co-operative supplier, with the distribution of 'profits' back to member customers (Lewis, 1992). Akin to the Rochdale model, the early co-operative champions envisioned a long-term strategy in which a network of agriculturally focused country town retail co-operative stores would buy shares in a parent co-operative that would assume a wholesale function.

This dream, however, did not eventuate. Circumstances unique to Western Australia forced the adaptation of the Rochdale model and principles to suit the environment in which it was seeking to establish itself. Several factors can account for this. The infant Western government sought to create an agricultural industry in a primitive pioneering environment and in virgin rural areas with an unknown ability to support agriculture (Munro, 2003). Subsequently, the embryonic Western Australian agricultural industry had to readjust to the difficult economic and social

61 The family name 'Harper' did not continue as a civic 'father' in Perth or Western Australia, unlike several of the family's business partner contemporaries.

effects of the First World War and the Depression, quickly followed by another world war (Sandford, 1955).

Sandford (1955, p 73) also argues that it proved impractical to have independent retail co-operatives in country towns serviced by a separate wholesale co-operative. The limited economic development of Western Australia at the time demanded a strong overarching agricultural co-operative to undertake both retail and wholesale functions to ensure that all country towns in agricultural Western Australia had access to goods and services. Westralian Farmers Co-operative emerged from the assortment of small agricultural co-operatives active at the time as the dominant agricultural co-operative. Only a State-wide co-operative, such as Westralian Farmers Co-operative, Sandford (1955) further argued, could provide the logistical coordination between different agricultural regions given the transport and communications channels of the period. Therefore, in response to the challenges presented by the immaturity of the economic and infrastructure development of the agricultural industry, the co-operative movement evolved as a top down initiative under the influence of one dominant agricultural co-operative, Westralian Farmers Co-operative. The unique development of the Western Australian co-operative movement reflects Craig's (1993) concept of co-operative logic. This logic accepts that each group's needs are unique and that the group's members will develop a co-operative organisational model responsive to their specific needs.

While the Rochdale model had to be adapted for Western Australian circumstances, as represented by Westralian Farmers Co-operative, the co-operative based commercial activity embedded in the Rochdale model and promoted by the co-operative champions found fertile ground in rural communities. Steeped in a collective self-help ethos, the beliefs of rural people and those underpinning co-operative philosophy were highly compatible (Sandford, 1955; K. Smith, 1984). Munro (2003) maintained that farmers believed that they were part of a community and the only way for them to survive during the difficult economic times preceding the First World War, the years of the war itself, the following Depression era and the Second World War, was to unite for their own common good. At a pragmatic level Munro (2003) also considered that the first wave of the co-operative movement was compatible with the 'horse and cart' level of technology in the early 1900s. These factors suggest a strong focus on geographically bound social and economic

networks among rural communities as a precursor to agricultural co-operative development in this era. The ability of the co-operative message to overlay the values of rural people and thus to enable the co-operative concept to take root and develop is also a recurrent theme in Craig (1993).

Munro, (2003) in addition, argued that the concepts underpinning the benefits of a co-operative, and how to form a co-operative, were simple for farmers to understand and the co-operative champions were able to convey the key messages to them without difficulty. These early farmers appeared to have an intuitive understanding of co-operative logic. According to Munro, the message of the early agricultural co-operators conveyed to farmers was to ‘look past your farm gate to see how you can help yourself to get a better deal by owning and controlling your inputs and outputs’. He asserts that this was an appealing and understandable message for farmers. Munro (2003) believed that this was the first time farmers had been encouraged to think more broadly about their industry by looking at issues outside actual farm production. This reflects early understanding by farmers of the agricultural co-operative structure as both a part of a supply chain and a means for vertical integration.

Westralian Farmers Co-operative

The evolution of the Western Australian agricultural co-operative sector is intimately entwined with Westralian Farmers Co-operative. Westralian Farmers Co-operative, established in 1914, was one of the many localised agricultural co-operatives formed around the turn of the 20th century to provide services or infrastructure to the infant agricultural industry, or to assist economically disadvantaged farmers. Unlike many of these early co-operatives, Westralian Farmers Co-operative prospered and evolved over five or six decades into a powerful economic and political force in Western Australia. Arguably, its economic influence continues today as the publicly listed company, Wesfarmers.

Westralian Farmers Co-operative grew out of a politically oriented farmers’ interest group. In the immediate pre-World War I years, the Farmers’ and Settlers’ Association⁶² was formed at a conference in Perth on March 28, 1912 (The

62 This farmer association is a predecessor to the current agri-political peak body, the Western Australia Farmers’ Federation (WAFF) (K. Smith, 1984).

Nationals, n.d.). Discussions focused on the political and economic well-being of farmers and delegates elected to separate commercial activities from political lobbying (K. Smith, 1984). The Country Party was formed in March, 1913, to address the political concerns of farmers,⁶³ while the co-operative business model was adopted as the strategy to achieve the economic goals of farmers (K. Smith, 1984).

The newly established Westralian Farmers Co-operative absorbed two existing grains related agricultural co-operatives, the Producers Union Co-operative and the Farmers Mercantile and Union Chaff Mills (K. Smith, 1984). The objective of the new co-operative was to buy and sell grain and also to provide farm supplies and merchandise, receiving commissions on the sale of goods and handling of grain (Sandford, 1955). Over the next three decades until World War II, Westralian Farmers Co-operative grew rapidly, and actively pursued agricultural supply, marketing or processing opportunities in most agricultural sectors, such as grains, dairy, horticulture, wool, cattle and sheep meat and honey.

Under the guidance of Westralian Farmers Co-operative, the agricultural co-operative sector in Western Australia evolved into two, highly inter-related, threads. The first thread is that of Westralian Farmers Co-operative which directly owned co-operative branch retail stores in many country towns.⁶⁴ This thread also drove the expansion of the agricultural co-operative movement in Western Australia for over a half century, and provided the necessary level of coordination to ensure that growth. Furthermore, this thread, again through necessity, adopted a 'top down' approach to the development of the agricultural co-operative sector in Western Australia, contrary to co-operative theory which suggests endogenous evolution (Craig, 1993; Mathews, 1999).

The second thread was the formation in country towns of independent merchandising co-operative stores owned by farmer members from the surrounding area. These co-operatives were established in those small communities that had sufficient zeal to form their own and therefore did not need to participate in the top

63 Following the success of the Western Australian Country Party, farm organisations supported the establishment of Country Parties in Queensland in 1915, Victoria in 1917, South Australia 1918, New South Wales 1919 and Tasmania in 1922. The Federal Country Party was formed in 1920 (The Nationals, n.d.).

64 Westralian Farmers Co-operative head office was located in Perth, the capital of Western Australia.

down Westralian Farmers Co-operative network of branch stores. These co-operative stores were self-governing, and due to their atomistic evolution, tended to operate in isolation from each other and to some extent without overall direction or coordination from the wider agricultural co-operative sector (Sandford, 1955). Over time, many of these stores were absorbed into the Westralian Farmers Co-operative network as agents. Sandford (1955, p 45) indicates that by 1919, only four years after it formed, Westralian Farmers Co-operative had a country town network of 65 local co-operatives, either as directly owned branches or agents, demonstrating a high level of goodwill between the endogenous and exogenous co-operative threads. In this period, Westralian Farmers Co-operative also agitated to form a peak body, the Co-operative Federation of Western Australia. As a result of this, the separate threads of the agricultural co-operative sector were further integrated into a cohesive movement under its own peak body.

This intense first wave of co-operative development over a relatively short period, demonstrated a passionate and active social movement in rural Western Australia in these early years. Munro (2003) reports, from first hand discussions many years later with the co-operative champions involved, that they were extremely active and busy over this period, travelling throughout Western Australia, often in difficult conditions, promoting the co-operative option to agriculturally dependent rural townships. The strategy of developing a network of local level multi-purpose retail co-operatives was successful and facilitated imitation in other rural communities, reinforcing the mutual self-help attitude already instilled in rural regions. Munro (2003) argues that the ease of duplicating the Westralian Farmers Co-operative successful formula for country town co-operatives contributed to the spread of the co-operative business model in rural Western Australia. By the outbreak of WWII, a coordinated system of co-operative farm and domestic supply, and commodity transport and handling services operated in most country towns from Esperance to Geraldton under the aegis of the Westralian Farmers Co-operative network of directly owned or affiliated country town based co-operatives (K. Smith, 1984).

Westralian Farmers Co-operative also gained an early impetus in the agricultural industry when it was appointed by the Western Australian government as an agent to collect the grain harvest during the difficult years of World War I up to

1922 when the compulsory scheme ended (K. Smith, 1984). The success of Westralian Farmers Co-operative and its country town co-operative store network in achieving the grain collection task developed strong farmer loyalty towards the co-operative concept and further entrenched the structure in the minds of country people (K. Smith, 1984, p 67). It also demonstrated to the Western Australian government the ability of farmer controlled co-operatives to benefit the economic well-being of farmers in regional Western Australia, and therefore the State's economy. The contribution of agricultural co-operatives to the agricultural industry and the economy subsequently stimulated a positive Western Australian government public policy framework for agricultural co-operatives that endured for several decades (K. Smith, 1984).

Nevertheless, Westralian Farmers Co-operative did face some difficulties. The co-operative's grain pool activities experienced growing competition from private grain merchants during the 1920s. These grain merchants offered farmers immediate cash payments compared to the part cash, part deferred payment system of Westralian Farmers Co-operative (K. Smith, 1984). Concurrently, during this period a new group of soldier settler farmers opened up virgin regions in the wheatbelt. These soldier settlers were unfamiliar with Westralian Farmers Co-operative's earlier contribution to the economic and social infrastructure of wheatbelt farmers and were therefore unaware of and uncommitted to the co-operative ethos. Their lack of knowledge about the co-operative philosophy further enabled the private grain merchants to gain a foothold in grain handling and selling.

This new scenario for the Western Australian agricultural co-operative sector during the 1920s, following very quickly on its earlier success, demonstrates the fragility of the co-operative movement. It confirms the need to consistently promote the concept within the agricultural industry and to ensure that agricultural co-operatives continue to provide an economic and social benefit to member farm businesses to retain relevance and hence loyalty.

Notwithstanding this challenge from private grain merchants, Westralian Farmers Co-operative's experience in the grains industry as the government agent encouraged it to explore strategies to introduce a voluntary farmer pool for the bulk handling of grain. It had attempted to introduce bulk handling directly after WWI but circumstances frustrated this development (see K. Smith, 1984, chapter 6).

Westralian Farmers Co-operative, in conjunction with the predecessor of the current Western Australian Farmers' Federation (WAFF), was instrumental in forming CBH in 1933. Close connections between Westralian Farmers Co-operative and an agricultural co-operative based in London, Overseas Farmers, jointly formed by several Australian farmer co-operatives as a marketing agent, ensured that all profits from the sale of grain went to farmers rather than 'middle men' (K. Smith, 1984). Westralian Farmers Co-operative was also involved with the formation of some Statutory Marketing Authorities, such as the Honey Pool, the Grain Pool and the Australian Wheat Board (Sandford, 1955; K. Smith, 1984).

These activities demonstrated that the Westralian Farmers Co-operative was purposefully undertaking a public good function, via its economic development role on behalf of the wider agricultural industry, rather than simply focusing on providing goods, services or infrastructure to its members within the grains industry. Although most Westralian Farmers Co-operative activities contributed to the financial growth of the co-operative, its commitment to the wider agricultural industry influenced it to supply a farmer needed function in any agricultural commodity, even if it financially stretched the co-operative or did not earn a surplus over the cost of undertaking the activity (Munro, 2003). The involvement of Westralian Farmers Co-operative in the economic viability of the dairy industry in the mid 1920s illustrates this approach (see K. Smith, 1984, chapter 9).

As Westralian Farmers Co-operative expanded into other agricultural industry sectors, it elected to incorporate the different industry sector co-operative activities as divisions under the one organisational and administrative banner of Westralian Farmers Co-operative, rather than develop separate co-operative entities (Sandford, 1955). This was viewed as desirable as the small population base of Western Australia could not absorb the additional administrative costs associated with forming separate co-operatives (Sandford, 1955). The wisdom of this strategy at that time was confirmed by the difficulties of some independent co-operatives that struggled to survive while Westralian Farmers Co-operative continued to grow from the benefits of organisational economies of scale. However, as a long-term strategy, it has had negative impacts on the viability of the agricultural co-operative sector in Western Australia as discussed below.

The success of Westralian Farmers Co-operative in the agricultural industry is also partly attributed to its understanding of the biophysical and cyclical nature of the agricultural industry, often characterised by 'booms and busts' (K. Smith, 1984). Other for-profit providers of comparable services were not prepared over the long term to accept the risks associated with the unpredictable elements inherent in the agricultural industry. Unlike an IOF, Westralian Farmers Co-operative provided services to farmers in the knowledge that in any one year, a farmer can experience difficulty but rebound profitably in the following season (K. Smith, 1984). Supporting farmers in down times in turn created a great deal of member loyalty towards the co-operative, as members recognised that their financial well-being was intimately enmeshed with that of the co-operative's activities. During this period, the symbiotic relationship between the co-operative and its members across different commodities created a virtuous and mutually beneficial circle of collective self-help in the agricultural industry.

As Westralian Farmers Co-operative matured as an organisation, a subtle change in direction occurred. The co-operative started to provide a diverse range of farm services that were not directly related to the actual production of a commodity, such as the provision of finance, insurance, leasing and taxation advice. The co-operative continued to demonstrate its on-going commitment to the wider agricultural co-operative sector by exploring international opportunities in agricultural co-operative activity that could be applied in Western Australia (K. Smith, 1984). Additionally, a number of technical commodity production or handling innovations were introduced to Western Australia as a result of Westralian Farmers Co-operative enthusiasm to look internationally for solutions to local issues (K. Smith, 1984).

The Waning of the Western Australian Agricultural Co-operative Sector

By the 1960s, Westralian Farmers Co-operative had tentacles in virtually every activity connected with assisting farmers in the production and marketing of their commodities and conducting a farm business. A vast network of retail co-operatives in most country towns also underpinned it. Due to the vastness and influence of Westralian Farmers Co-operative, those associated with agricultural co-operatives thought that there would always be a significant place for this business

structure in the Western Australian agricultural industry (Munro, 2003). The Western Australian agricultural co-operative sector, under the auspices of Westralian Farmers Co-operatives, was well established institutionally, well supported by its membership and highly influential in a public policy sense. In spite of this confidence about the longevity and embeddedness of the co-operative business model in the economic and social viability of the agricultural industry, by the 1960s, the golden era of agricultural co-operatives was gradually waning. The large number of country town agricultural co-operatives still operating under the highly successful Westralian Farmers Co-operative network masked this shift, although with hindsight, one indicator of the change in the Western Australian co-operative movement was the increasing pace in winding up defunct retail agricultural co-operatives in country towns.⁶⁵ However, as Westralian Farmers Co-operative continued to grow in organisational size and economic power, the awareness of the trend and its implications for the agricultural industry and the Western Australian co-operative movement did not become apparent to the agricultural co-operative sector until much later (Munro, 2003). The agricultural co-operative sector had inadvertently instituted its own subsequent decline.

The success of Westralian Farmers Co-operative created a self-contained and self-sustaining agricultural co-operative sector functioning in a relatively closed system without external input for several decades. Although Westralian Farmers Co-operative was internationally connected to the wider co-operative movement, there was no need for any new impetus to the co-operative movement in Western Australia for over forty years. Any additional service required by farmers was provided directly by Westralian Farmers Co-operative. Alternatively, the co-operative influenced the environment to ensure that another co-operative or company was established under its auspices to deliver the service. As Westralian Farmers Co-operative was able to successfully meet the needs of farmers via its own unique approach, the agricultural co-operative sector did not need to change its strategy to maintain the viability and vivacity of the co-operative movement.

65 Sandford (1955) notes that prior to the Depression a number of agricultural co-operatives also folded. He cites several reasons for this, such as inadequate capital, insufficient local support (which Sandford argues leads to inadequate capital), poor or dishonest management, the early pioneering efforts to establish an agricultural industry in certain regions proved to be misjudged and therefore the co-operative also failed, or in some regions a natural conservatism did not facilitate a collective approach.

Paradoxically, the success of Westralian Farmers Co-operative unwittingly created a dependency and vulnerability in the wider agricultural co-operative sector on the goodwill of Westralian Farmers Co-operative. As the co-operative movement grew throughout Western Australia, it became much more difficult for farmer members to understand its complexity (Sandford, 1955). With the increasing intricacy, fewer people were inclined to expend the effort to become involved, which led to the burden falling on declining numbers of highly committed individuals. An outcome of this was that management started to assume roles ordinarily undertaken by the Board of Directors or members, creating the environment for co-operative managers to exert greater influence over the strategic direction of the agricultural co-operative.⁶⁶ Sandford (1955) suggests, even as early as the 1950s, that the increasing reliance of co-operative businesses on their management and executive for administration and planning contributed to the diminishing role of agricultural co-operatives. This unwittingly further perpetuated the problem of an increasing knowledge and power gulf between members and the individuals employed to manage co-operative activities on their behalf.

Sandford (1955) lamented that farmer members had not become more involved with and fully informed about the Western Australian co-operative movement. Sandford was prepared to accept, due to the hardship of establishing their farms, why the first generation of member shareholders did not become active participants in the movement and understand how it contributed to the economic viability of their farm enterprises. However, he commented that the second generation of farmers in the post-war years were no more aware of the co-operative movement than their fathers.

In their enthusiasm to establish the agricultural co-operative sector in Western Australia, the founding co-operative champions appeared to have neglected the co-operative principle of education. They did not, for example, set up adult education centres as practised by the co-operatives established in British Columbia (Mathews, 1999; Wilkinson & Quarter, 1996). The focus on education in British Columbia, both generic and co-operative specific, developed an understanding by

66 The tension between agricultural co-operative Boards, chairs and senior executives is explored via principal-agent theory in Chapter Five and Chapter Eight.

these individuals of how the wider economic and social systems could disadvantage them (Wilkinson & Quarter, 1996).

Smith (1984) notes the willingness of Westralian Farmers Co-operative executives and Board members to travel to the UK to secure markets for agricultural commodities, and to the US and Canada to observe new developments in agricultural co-operative plant and equipment and understand the workings of Statutory Marketing Authorities. These international trips reflect a technical orientation rather than undertaking education according to the co-operative principle. There is little evidence of key actors associated with the Western Australian co-operative movement or agricultural co-operatives seeking to understand the nature of the unique co-operative business structure or embed the spirit of co-operativeness within the rural communities. This can partly explain Sandford's lament that the agricultural co-operative sector in Western Australia did not truly embrace the idealism of the co-operative movement, rather adopting the model in a pragmatic way as long as it provided economic and social benefits.

Other developments emerging from the 1960s can also explain the gradual decline in the agricultural co-operative sector. 'Entrepreneurs'⁶⁷ started to promote co-operatives for reasons unrelated to the co-operative principles. These reasons included the taxation benefits specifically for agricultural co-operatives under the Commonwealth *Income Tax Assessment Act 1936*, or to remove a proposed agricultural business from the requirements of the extant Western Australian *Corporations Act*, or to exploit some weakness in the Western Australian *Companies (Co-operative) Act 1943* (Munro, 2003). The philosophy motivating the early co-operative champions was not evident in these latter promoters of the co-operative business structure.

Munro also identified the contribution, during the 1960s, of professional advisors, such as accountants, financiers and solicitors, to the decline of the co-operative sector, as they recommended the corporate structure to farmers over the co-operative structure. This development illustrated the declining knowledge base of the co-operative structure outside of the few key co-operative actors still active at the

⁶⁷ This is the term used by Munro (2003), which was in vogue in Western Australia during the 1980s to describe individuals such as Alan Bond. A more contemporary term to describe this type of activity in agriculture may be 'management consultant' or 'agribusiness management consultant'.

time. Public servants also did not have an intrinsic interest in the co-operative structure, also partly explaining the decline of the model (Munro, 2003). It is insightful that these factors were starting to frustrate the viability of the agricultural co-operative sector in the 1960s, as it indicates a waning in the agricultural co-operative sector that has been evident for several decades.⁶⁸

Another possible explanation for the declining agricultural co-operative sector from the 1960s can be based around the concept of co-operative development as an expression of a farmer initiated social movement as discussed in Mooney & Gray (2002). The first phase of Western Australia's co-operative movement grew out of the economic and social difficulties facing farmers at the time. These primitive conditions and the economic adversity endured by farmers created the circumstances where people seek to improve their situation via innovative strategies based on mutual self-help. In this situation, it is possible to garner support from the disadvantaged for new approaches to overcome their hardship. However, as the Western Australian agricultural industry developed and prospered, the social and economic conditions for farmers and rural communities also improved. As Sandford (1955, p 299) stated 'the pioneering atmosphere that surrounded the birth of co-operation has gone.' Consequently, the difficult conditions that created the drive to form agricultural co-operatives had been resolved and some co-operatives became less important and closed down, leading to their diminishing numbers.

Munro supported this view, suggesting that the Westralian Farmers Co-operative was very successful in enhancing farmers' economic well being. Therefore, the original economic hardships that stimulated the formation of local co-operative stores had been alleviated and they were no longer needed (Munro, 2003). He argued that these co-operatives had achieved their function of correcting market failure and that by the 1960s, the private sector was able to profitably provide the services and products that previously could only be provided by co-operatives (Munro, 2003). To illustrate, by this time, supermarkets and private sector farm machinery agents were able to compete successfully with the co-operative merchandising stores (Munro, 2003).

68 The interviews conducted for this thesis demonstrate that in the first years of the 21st century, the factors identified by Munro continue to thwart the standing of the agricultural co-operative model. The significant difference today is that neo-classical economic theory confers a legitimacy on actors when they dismiss the validity of the agricultural co-operative model.

Munro considered that improving technology also changed the external environment for co-operatives. Better roads and cars enabled rural people to travel more cheaply and efficiently to larger regional centres for goods and services, thus bypassing their local retail co-operative. Clearly co-operative member loyalty to the local co-operative was diminishing and this provided the space for for-profit actors to enter. Munro's rationale for the declining number and influence of agricultural co-operatives is consistent with Nourse's competitive yardstick theory for agricultural co-operatives (Nourse, 1922, cited in Cook, 1995, Torgerson et al., 1997). Nourse considered that agricultural co-operatives should operate in a market as a competitive yardstick to ensure that IOFs behave appropriately and that the market would operate efficiently (Cobia, 1989). Once a market became competitive as a result of the co-operative participating in the market, then the role of the co-operative was fulfilled and they could exit the market (Nourse, 1922, cited in Torgerson et al., 1997). Munro, while unfamiliar with Nourse's theory, found it related well to his own observations of the evolution of Western Australia's agricultural co-operative sector.

As small agricultural co-operatives were undergoing change, Munro (2003) also identified that significant transformation was occurring within the dominant Westralian Farmers Co-operative itself. He argued that by the 1950s, Westralian Farmers Co-operative had operationally and psychologically evolved from a co-operative to a corporation. In 1984, when Westralian Farmers Co-operative converted to the company Wesfarmers, Munro (2003) believed that its farmer members recognised it was a reasonable step for the co-operative to take.

The Conversion of Westralian Farmers Co-operative to Wesfarmers

In 1984, the Westralian Farmers Co-operative Board proposed that the Board restructure itself as a corporation, and this was subsequently endorsed by its membership.⁶⁹ The Board was concerned about the possibility of a hostile takeover of the co-operative. According to Madden (2003b), and confirmed by Munro (2003) and Booth (2004), the co-operative's \$2.00 share (par value) was backed by net assets which reflected approximately \$12.00 value per share. The Board believed that a significant number of members could be enticed to sell their \$2.00 shares for a

⁶⁹ See Plunkett (1999) for more information about the restructure of Westralian Farmers Co-operative.

higher price to a ‘corporate raider’, who would then control the co-operative (Munro, 2003).⁷⁰

In recognition of the effectiveness of the agricultural co-operative model to ensure farmer control and ward off takeover bids, Wesfarmers preserved two features of the co-operative business structure in its new corporate structure. The first was the retention of the overarching co-operative structure via Westralian Farmers Co-operative, which held 60 per cent of Wesfarmers shares. The second strategy was the holding of a single founders share (often referred to as the ‘golden share’)⁷¹ in Wesfarmers by the overarching co-operative. These mechanisms were subject to five-year reviews by the Wesfarmers Board.

By 2001, the Wesfarmers Board elected to wind up the Westralian Farmers Co-operative.⁷² Booth (2004) argued that Wesfarmers made this decision as it no longer needed the safeguard mechanism provided by the overarching co-operative structure to protect Wesfarmers from a hostile takeover. Wesfarmers had, by this time, also evolved into a highly successful Australia-wide company. The threat of a hostile takeover bid had become highly unlikely, as it would require substantial funds to achieve this outcome.⁷³ Thus, the Westralian Farmers Co-operative story ended and its successor, Wesfarmers, was now totally in the corporate world.

Munro (2003) accounted for the transition of Westralian Farmers Co-operative to a corporation by the following sequence of events. When Westralian Farmers Co-operative was the wholesaler to a large network of retail co-operatives in country towns, the major source of cash flow was the commission it earned on selling goods and services to members. Westralian Farmers Co-operative was structured to devolve democratic power to its members, which is a key element of a co-operative structure. The 30 or 40 managers of the country town retail co-

70 An agricultural co-operative, Pivot, was the target of an unsuccessful takeover bid by a private ‘corporate raider’, Mr Don Shears, in 1987 (United Farmers Co-operative Company Webpage, n.d.).

71 The Westralian Farmers Co-operative ‘golden share’ was a nominal share held by the co-operative that gave it the right of a decisive vote in the new company of Wesfarmers. Thus the co-operative retained the right to veto all other Wesfarmers shareholders, ensuring the control of the co-operative over the corporation.

72 As part of its finalising its activities as a co-operative, Wesfarmers donated \$5,000 to the CFWA (Booth, 2004).

73 Wesfarmers also reorganised its structure at this time, which included dismantling of the Franked Income Fund. This was another vehicle within the Wesfarmers group to protect it from hostile takeover. The CFWA had some shares in this fund and recouped several hundred thousand dollars by selling them back to Wesfarmers (Booth, 2004).

operatives established by Westralian Farmers Co-operative were closely aligned to their local farmer members. The managers gained their power and authority from this familiar connection with the local co-operative members and used this strength to control and direct the Perth-based head office management team.

Over time, however, the city based businesses or services Westralian Farmers Co-operative accumulated after WWII, such as finance and insurance services, started to earn more 'profit' for Westralian Farmers Co-operative than the simple commission based income from the co-operatives in the regions. As a result, the managers of these city based business units gained a stronger voice due to their contribution to Westralian Farmers Co-operative's profitability. Correspondingly, the regional branch management power base gradually eroded. This trend was intensified as falling farm enterprise numbers also contributed to a declining member base.

Munro argued that this shift in power from the country town retail co-operatives to the city based managers effectively meant that Westralian Farmers Co-operative had transformed during the 1950s from a co-operative to a corporation in behaviour and thinking, although it remained incorporated under co-operative legislation. He also argued that this occurred incrementally and without the farmer members being aware of it or understanding the implications for the Westralian Farmers Co-operative structure of the shift in the power base from the country town co-operatives to the managers of the commercially oriented Perth based business units (Munro, 2003).

Eventually Westralian Farmers Co-operative's change in direction resulting from its growth and transition to profit driven business units stimulated its subsequent restructure to a publicly listed corporation in the mid 1980s. Munro (2003) unsentimentally contended that co-operatives can get too big for the co-operative structure and, under these circumstances, that it was appropriate that they become corporations. This, he argued, was to be viewed as a successful outcome for the individual co-operative, and not as a failure of the co-operative structure itself.

Westralian Farmers Co-operative Contribution to the Agricultural Co-operative Sector

Although Westralian Farmers Co-operative eventually became a corporation, it is clear that it had a highly demonstrated commitment to the co-operative ethos.

Munro (2003) argued that Westralian Farmers Co-operative was jealously supportive of the co-operative sector. In the pre-WWI era, the co-operative champions persuaded farmers to adopt the co-operative structure due to its capacity to garner economic benefits for member farmers and exert some control over the supply chain. Further, Westralian Farmers Co-operative initiated and supported the formation and growth of other agricultural sector co-operatives within its own organisation. He stated that Westralian Farmers Co-operative continued to provide services and infrastructure to the agricultural co-operative sector and contribute funds to the State and National Co-operative Federations up until the 1980s, even though it itself had outgrown the structure by the 1950s (Munro, 2003).⁷⁴

The Western Australian agricultural co-operative sector, largely as a result of being under the aegis of Westralian Farmers Co-operative, was clearly dominating the wider Western Australian co-operative movement. To illustrate the strength and influence of agricultural co-operative sector, a survey conducted in 1945 estimated that there were 32,000 members of agricultural co-operatives in Western Australia (Sandford, 1955). Sandford (1955, p 297) adds that in 1954, there were 52 country co-operatives under the banner of Westralian Farmers Co-operative and only eight non-agricultural consumer co-operatives. Five of these non-agricultural co-operatives were located in metropolitan Perth, two in the Goldfields and one in the South West (Sandford, 1955), demonstrating the historical imbalance between metropolitan non-agricultural co-operatives and rurally based agricultural co-operatives. The city and metropolitan retail merchandising co-operatives failed to gain much traction or influence in Western Australia or to provide new directions or stimulus to the overall co-operative movement.

Furthermore, the agricultural co-operative sector gained an inferred power based on its ability, via the agricultural industry, to contribute to the Western Australian economy. According to Munro (2003), the influence and strength of the agricultural industry encouraged a positive response from external actors, such as politicians, public servants and farm advisors, to the co-operative model as the preferred business structures adopted by the industry. Additionally, many of Western Australia's politicians were also from regional areas. Tonts (1998) notes that a

⁷⁴ Indeed, Wesfarmers donated some funds to the CFWA in 2003 (Western Australian Department of Consumer and Employment Protection, 2005a).

political feature of rural Western Australia was a longstanding electoral malapportionment that facilitated a disproportionate representation of rural voters over metropolitan voters. This resulted in country electorates achieving greater political representation than their populations warranted. The notion of rural electoral malapportionment evolved from the 1870s in acknowledgement of the hardships of rural life and that much of Western Australia's wealth came from agriculture (Tonts, 1998).⁷⁵

With the prevalence of co-operatives in rural areas it was not uncommon for a number of co-operative Directors to be in a politician's electorate. The Directors therefore had considerable access to lobby politicians about co-operative issues (Munro, 2003). The CFWA, as the peak body, was well supported by the agricultural co-operative sector and, combined with the effect of electoral malapportionment, was therefore able to favourably influence political stakeholders, reinforcing strong member support (Munro, 2003). It is clear that during the period of Munro's links with the Western Australian agricultural co-operative sector, it functioned within an advantageous State and Commonwealth level public policy framework for agricultural co-operatives.

The Westralian Farmers Co-operative story demonstrates that the Western Australian agricultural co-operative sector was very viable and deeply embedded into the social and economic activity of farming from the 1920s to the 1950s. While deviating from the Rochdale model, the top down strategy fostered by Westralian Farmers Co-operative undoubtedly succeeded in establishing a successful agricultural co-operative sector in regional Western Australia. Over time, Westralian Farmers Co-operative's objectives expanded to develop the necessary infrastructure to service the needs of its farmer members and address market failure by developing more competitive markets (Sandford, 1955, p v). Westralian Farmers Co-operative matured over fifty or so years into a multipurpose agricultural co-operative providing a diverse range of services and goods to farmers across different sectors. It was a highly vertically integrated co-operative and operated in an international market. The Westralian Farmers Co-operative demonstrates that over successive generations, Western Australian farmers have been successfully functioning within the concepts

⁷⁵ Electoral malapportionment remained in place until May 2005, when the Gallop Government (Australian Labor Party) secured the passage of legislation to remove malapportionment (Findlaw.com.au).

of 'vertical integration', 'supply chain' and 'globalisation' for decades. Paradoxically, much of the contemporary farm business literature urges farmers to develop these concepts (Botteril, 2003). In reality, farmers have been, in a very sophisticated manner, using their co-operative structures to achieve these outcomes for many decades.

The Agricultural Co-operative Sector in the 1980s

With the conversion of Westralian Farmers Co-operative to Wesfarmers, however, the agricultural co-operative sector lost its primary benefactor and leadership. Additionally, the switch to the company of Wesfarmers occurred at a time where the founding co-operative champions had retired and a second generation of co-operative champions with similar passion for the co-operative model in the wider agricultural industry failed to eventuate. Lastly, the conversion of Westralian Farmers Co-operative also resulted in a gradual loss of political influence for the agricultural co-operative sector and the CFWA.

Despite the slipping power of the agricultural co-operative sector, new agricultural co-operatives still formed during the 1980s (Munro, 2003). Co-operative Purchasing Services, a wholesale grocery co-operative; Capricorn Society, which sources products and services on behalf of member co-operative service stations and smash repairs; and Rural Traders Co-operative, a wholesale and retail agricultural co-operative, formed in the late 1970s and 1980s. Munro (2003) remarked that Rural Traders Co-operative was a grass roots agricultural co-operative initiated under the banner of the Farmers Union (now WAFF), and was formed in response to the increasing neglect by Wesfarmers of its farmer base. This conforms with Madden's (2003b) view that there will always be co-operatives in agriculture because as one co-operative grows and successfully moves onto another plane, the vacuum left behind will be filled by another agricultural co-operative.

Another agricultural co-operative trend arose in the 1980s. Rather than coming from the traditional agricultural industries as in the first period of agricultural co-operative development, many of these new co-operatives were niche based in sunrise industries such as deer, rabbits, emu and olives. According to Munro (2003), they mostly failed as agricultural co-operative ventures. As Munro (2003) explains, the potential members in these niche sectors understood the co-operative concept at

an intuitive level and this enabled initial discussions with potential members to commence. However, at another level, probably financial, they were not prepared to commit to the initiative when the critical time came, leading to the collapse of the co-operative business enterprise (Munro, 2003). Further, ventures into niche industries were often sidelines to the main commodity of farm businesses. Unlike the first era of co-operative development, often this meant that there was not a great financial dependence by the proponents on the outcome of the experiment (Munro, 2003), which potentially weakened their commitment to the co-operative venture.

Another factor was that many of the individuals involved in niche industries were more geographically dispersed than those with one commodity in a defined region (Munro, 2003). The lack of deep social and economic connections between the producers, apart from the shared interest in the niche activity itself, also contributed to the failure of these co-operatives. The success of Westralian Farmers Co-operative demonstrates the requirement for some pre-existing connection between members of a proposed co-operative to build the necessary trust to move to the subsequent stages of forming the co-operative business and building its economic viability. These close associations, often arising from hardship and cemented in other agricultural or community based activities, were in place prior to the first wave of Western Australia's agricultural co-operatives. However, with the niche agricultural industries this pre-existing trust and these networks were not so well established.

Munro thought that another major factor was that the farmers involved in niche production generally lacked the ability to see past the actual production of the niche product into developing it as a commercially viable consumer product for the retail market place. The newness of knowledge involved in a niche industry also undermined confidence to develop the co-operative venture over a longer period. He also commented that, ironically, if the product did have some potential in the market place, invariably a 'cashed up capitalist' would come in and take it to the market place after the producer members of the niche sector co-operative had undertaken all the early feasibility research and development (Munro, 2003).

While many of the niche co-operative initiatives did not succeed for long, the continued interest in forming co-operatives demonstrated an ongoing knowledge in the 1980s of the commercial benefits of the structure despite the decline in overall agricultural co-operative activity. Interestingly, notwithstanding the lack of success

of these niche based agricultural co-operatives during the 1980s, many of the contemporary agricultural co-operatives in the agricultural co-operative mini-revival have also formed in these sunrise industries. Booth (2004) argues that the future of agricultural co-operatives in present day Western Australia is linked to these sunrise industries with the formation of small agricultural co-operatives comprising five to twenty members. Munro (2003), with his historical knowledge and perspective of the Western Australian agricultural sector, argues that there will always be a need for small interest groups with a commercial focus, and that these could be formed into agricultural co-operatives. However, as has been demonstrated with recent activities in these niche industries, the role of the external consultant (the 'entrepreneur') threatens the potential for grower control and ownership of returns via the agricultural co-operative model (Booth, 2004). Farmer groups presently involved in developing several niche sectors, such as olives, have potential for commercial success, and have been encouraged by professional advisors and consultants to use the corporate rather than co-operative model to develop their industries. The longer-term wisdom of adopting a corporate business structure is debatable. However, the authority of agribusiness consultants, supported by an institutional framework based on neoliberalism, overshadows the limited advisory resources affiliated with the contemporary Western Australian co-operative movement.

Another development during the 1980s in Western Australia's co-operative movement was a drive, initiated by the Western Australian government, to integrate commercial co-operatives and non-profit community based organisations based on co-operative sentiments (Munro, 2003). The Co-operative Federation of Victoria (CFV) also notes the role of the Victorian government to try and amalgamate commercial and community based co-operatives around this time (Co-operative Federation of Victoria, n.d.). According to the CFV (n.d.), the Victorian government funded two projects, one about employment co-operatives and the other housing co-operatives. Both initiatives failed, attributed to the Victorian government driving the agenda in their development, rather than the grass roots endogenous approach found in co-operative theory (Co-operative Federation of Victoria, n.d.).⁷⁶ Concurrently, Kenyon (1983) was exploring the potential of community and worker co-operatives

⁷⁶ Booth (2004) argues that co-operatives in Victoria are more community based co-operatives unlike the commercially oriented co-operatives which are dominant in Western Australia. The development of the Victorian co-operative legislation partly explains this orientation.

in Western Australia. Munro (2003) participated in several State Government initiated meetings to explore the amalgamation of commercial co-operatives and community based activities under the co-operative movement banner.⁷⁷ He commented that representatives from Western Australia's commercially focused co-operatives, which were essentially businesses, found it very difficult to comprehend the nature of a community oriented non-profit co-operative. Munro (2003) argues that the philosophical divide between the non-profits and the commercial co-operatives was too great to enable a joint focus and the Western Australian impetus in the early 1980s to integrate the two approaches died away. Another effort to stimulate the community based co-operative sector was mounted in the late 1990s with the formation of a peak body for community based 'co-operatives', funded by the Lotteries Commission (Booth, 2004). It appears to have produced a website then rapidly disappeared. The proposed Western Australian legislation for co-operatives⁷⁸ will embrace 'non-trading' co-operatives, which are essentially community based non-profit entities, thus potentially revisiting the philosophical divide between commercial and community co-operatives identified by Munro.

Decline in the Use of the Co-operative Structure

Munro (2003) attributes the underlying cause of the decline in the co-operative option to the lack of need for the agricultural co-operative in the contemporary agricultural industry. He contrasts the early period of rapid development in co-operatives that, he argues, formed in response to a need usually associated with market failure, with the contemporary situation where there are few agricultural co-operatives. By inverting the maxim of 'need leads to co-operatives' to 'no co-operatives, therefore no need', he is able to dispassionately explain the decline in active agricultural co-operatives in Western Australia. Based on this interpretation, he therefore argues that it is not appropriate to artificially stimulate interest in the agricultural co-operative model if the need for it is not there. He maintains that the highly institutionalised support for co-operatives in other parts of the world, such as in the United States and Europe, mistakenly props up agricultural

77 The Western Australian Companies (Co-operative) Act 1943 does not cover non-commercial entities, such as community-based organisations, even if these organisations philosophically embrace the co-operative principles. Further, the Act prohibits entities not incorporated under this Act from using the term 'co-operative' in their registered name.

78 Appendix Two discusses the Western Australian development of new legislation for co-operatives.

co-operatives and enables them to continue for the time being. This, he argues, simply masks the fact that the real need for agricultural co-operatives has passed (Munro, 2003). Later chapters in this thesis provide alternative explanations for the present day circumstances confronting agricultural co-operatives and their role within the changing environment of the Western Australian agricultural industry.

Conclusion

This chapter established that the severe economic and social conditions experienced in the emerging agricultural industry of the early 20th century triggered the early co-operative movement in Western Australia. Further, this period produced arguably the most famous agricultural co-operative in Western Australia - Westralian Farmers Co-operative. Westralian Farmers Co-operative underscored the role of an agricultural co-operative in contributing to the economic viability and social well-being of the agricultural industry. The Western Australian agricultural co-operative sector, symbolised by Westralian Farmers Co-operative, subsequently enjoyed several decades of political and economic influence.

In the mid 1980s, Westralian Farmers Co-operative converted to the corporation, Wesfarmers. Implicit in this conversion is a proposition that the most appropriate pathway for a successful co-operative is towards a corporate structure. Its conversion also impacted in other areas of the agricultural co-operative sector, particularly the ability of the peak body to ensure that the co-operative movement functioned in a favourable public policy environment. The role of the peak body is explored in depth in the following chapter.

CHAPTER FIVE

The CFWA: The Peak Body for the Western Australian Co-operative Movement

Introduction

Inherent in co-operative philosophy is the belief that co-operatives foster a broader movement by co-operating with other co-operatives. The sixth value of the Statement on the Co-operative Identity is:

Co-operation among co-operatives - Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures. (International Co-operative Alliance, n.d.).

One way to develop a wider co-operative movement is to establish and support a peak body. The purpose of this chapter is to explore the role of the peak body for the Western Australian co-operative movement, the Co-operative Federation of Western Australia (CFWA). The CFWA is a significant organisation in this thesis, as it has a direct relationship with, and bearing on, the well-being of the co-operative movement, the agricultural co-operative sector and hence agricultural co-operatives in Western Australia.

This chapter reviews the current role of the CFWA, its organisational structure and its evolution as the peak body. The chapter analyses an array of challenges confronting the CFWA as it undertakes its complex peak body role of representing its members and the co-operative movement to government and the wider community while concurrently providing services and benefits to its membership. The analysis is particularly interested in the way the CFWA adjusts to the changing political and economic landscape of Australia emanating from economic reform.

As identified in Chapter One, several significant events occurred with this organisation during the research for this thesis. In 2004, the Co-operative Federation of Western Australia (Inc) changed its registered trading name to Co-operatives WA.⁷⁹ The re-badging was part of a wider organisational restructure that included the abolition of the full-time staff position of Executive Officer and the incumbent, Mr John Booth, was made redundant. The Board of Directors subsequently contracted the secretariat function of the peak body to an executive management services consultant, Mr Peter Wells, of Peter Wells and Associates Pty. Ltd. Additionally, at the time of the restructure; several new Directors to the Board were elected.⁸⁰

These developments, to some extent, have complicated the narrative of this chapter. A large amount of the research for this chapter occurred during the former Executive Officer's incumbency and shaped much of the analysis of peak body behaviour.⁸¹ With the change of name, structure and personnel, some of the commentary is now historical. However, the insights of peak body behaviour captured in the earlier research are pertinent to the overall argument of this thesis.

The CFWA as the Peak Body

The CFWA is the peak body for co-operatives incorporated in Western Australia under the *Companies (Co-operative) Act 1943* and the *Co-operative and Provident Societies Act 1903*. The CFWA was formed in 1919 under its original name, the Co-operative Federation of Western Australia. It is the oldest co-operative movement peak body in Australia and has been continuously operational since its incorporation. The CFWA, as an organisation, is itself incorporated as an association under the *Western Australian Associations Incorporation Act 1987*. As required by this Act, the CFWA is democratically structured. Its membership elects member co-

79 As the incorporated name of the peak body remains the Co-operative Federation of Western Australia (Inc), and to simplify the narrative, the acronym CFWA is used throughout this thesis.

80 The CFWA refers to its Board of Directors as a Council.

81 While much of the research was conducted during the period in which the former Executive Officer, Mr John Booth, was employed by the CFWA, the final draft of this chapter of the thesis occurred after the restructure. For clarification, references to the individual employed as the Executive Officer will continue to refer to him as such. The individual contracted to undertake the secretariat function in early 2004 is referred to as the Secretary.

operatives to form the CFWA Council.⁸² In turn, the co-operatives elected to the Council nominate representatives from their co-operative to sit on Council. Currently, the Council comprises eight member co-operatives. A contracted secretariat consultancy firm services the Council representatives and attends to the day-to-day affairs of the CFWA.

Only business entities incorporated under the *Western Australian Corporations (Co-operative) Act 1943* or the *Co-operative and Provident Societies Act 1903* can become members of the CFWA.⁸³ The CFWA does not represent other member based mutual organisations, such as housing co-operatives, building societies, credit unions and friendly societies, which have their own peak bodies (Griffiths, 2004).⁸⁴ A diverse range of industries and activities forms the basis of the CFWA membership, such as:

- Newspapers
- Taxi cabs
- Travel Agents (Wholesale)
- Agriculture - supply, marketing, value adding in a range of traditional and new niche industries such as inland aquaculture, carob and olives
- Fishing
- Irrigation
- Storage containers, freight
- Rural community development
- Merchandising - retail and wholesale in grocery, farm machinery, hardware
- Services to Agriculture - grain handling, storage and marketing, abattoirs

In May 2005, 71 co-operatives were incorporated under the *Corporations (Co-operative) Act 1943* or the 1903 Act, and listed on the Western Australian Department of Consumer and Employment Protection database of co-operatives (2005a).⁸⁵ All but one of these registered co-operatives was 'active'; that is,

82 The Council is analogous to a Board and in subsequent parts of this chapter, reference is made to the activities of a Board.

83 There are only a few CFWA member co-operatives registered under the *Co-operative and Provident Societies Act 1903*.

84 The peak bodies for these mutual organisations are not part of this research. The fragmentation of the mutual and co-operative sectors and the consequent lack of an overarching national peak body for all mutual and co-operative organisations is one of the contributing factors to the marginalised position of the co-operative movement in Australia.

85 The Department of Consumer and Employment Protection is responsible for administering this legislation. During the course of this research, the Department of Consumer and Employment Protection reviewed the status of co-operatives registered under its legislation. In late 2003, it was estimated that there were approximately 80 Co-operatives were registered with the Department

operational and trading on a commercial basis. Of these 70 active co-operatives, 48 were members of the CFWA (Co-operative Federation of Western Australia, 2004b). These figures demonstrate that the CFWA represented almost 70 per cent of registered co-operatives, which is a respectable membership density.⁸⁶ Despite this high density, the CFWA membership has declined from 52 in 1994 to the present 48 members (Co-operative Federation of Western Australia, 2004b).

Membership fees are the main source of recurrent income for the CFWA. A few larger co-operative members contribute funds in addition to their membership fee as benefactors of the peak body. The CFWA also sources funds from fee based consultancy services to both existing and newly forming co-operatives and generates some profit from its annual conferences. A special levy was applied to members in 2002, which raised \$24,000 to assist members with professional development related to the proposed co-operatives legislation to replace the *Companies (Co-operative) Act 1943*.⁸⁷ The Western Australian Department of Consumer and Employment Protection (DOCEP) also contributed \$15,000 in 2003 for the CFWA to provide advice to its membership about the proposed legislation (Interviewee 659, 2003). The CFWA also has some cash investments. Despite the recurrent sources of income and *ad hoc* special grants from government departments, the CFWA struggled to balance its annual income and annual expenses, resulting in the need from time to time to draw down on its investments (Booth, 2004; Interviewee 797, 2004).⁸⁸

A significant issue facing the CFWA is the drafting of new Western Australian legislation for the co-operative movement to replace the *Companies (Co-operative) Act 1943* and ensure greater consistency in legislation for co-operatives across all Australian States. The issue of new co-operatives legislation has been bubbling along for over a decade. Some recent impetus is evident, with an Industry Reference Group established by the Minister for Consumer and Employment

(Western Australian Department of Consumer and Employment Protection, 2005a). Of these 80 registered co-operatives, about 55 were operational (Booth, 2004; Western Australian Department of Consumer and Employment Protection, 2005a). In the same time frame, the CFWA had a membership of 48 co-operatives (Co-operative Federation of Western Australia, 2005b; Interviewee 649, 2003).

⁸⁶ Membership density is the percentage measurement of membership of all eligible co-operatives belonging to the CFWA. It is determined by dividing the number of CFWA members (48) by the total number of eligible co-operatives which are still operating (approximately 70).

⁸⁷ Appendix Two examines the progress of updated legislation for co-operatives in Western Australia.

⁸⁸ The CFWA 2005 conference suggested that this situation was stabilising (Co-operative Federation of Western Australia, 2005b).

Protection in 2004 to advise on the new co-operatives legislation in Western Australia (Newcombe, 2005). Another issue absorbing the Council's energy is implementing the new strategic plan following its restructure in 2004. Particular foci of the strategic plan are governance and membership education issues, and ensuring the peak body's ongoing financial security (Co-operative Federation of Western Australia, 2003b).

The Role of a Peak Body in the Co-operative Movement

Sandford (1955) and Kenyon (1983) provide insights into the historical role of the CFWA. Writing in the mid 1950s, Sandford (1955, p 304) stated that the CFWA was a 'strictly non-political and non-sectarian body, with its main object the promotion of co-operative activities'. The political neutrality of the CFWA is also repeated by Kenyon (1983, p 156), who stated that the CFWA was structured as a 'non-profit, non-political, non-sectarian, non-trading body'.⁸⁹

Kenyon (1983)⁹⁰ provided additional information on the functions and services offered by the CFWA in the 1980s. He stated that the primary objective of the CFWA was to 'co-operate and promote Co-operatives actively within Western Australia' (Kenyon, 1983, p 157). Some excerpts from the extensive list of activities of the CFWA quoted by Kenyon were to:

- Collaborate with interstate and overseas organisations
- Encourage trade between Co-operatives
- Extend its activities into the social and cultural field
- Promote and protect the recognised co-operative principles
- Advise and encourage Co-operatives in successful business methods
- Provide a channel through which Co-operatives can make representations to governments
- Overview legislative changes

⁸⁹ The strong focus on political neutrality in the CFWA may be explained by the 1914 farmer meeting discussed in Chapter Four, which resulted in the creation of the Country Party to address political issues on behalf of farmers. Farmers at this meeting also voted to form the Westralian Farmers Co-operative to pursue economic factors on behalf of its farmer members. The two new entities strictly demarcated the political and economic pursuits. Perhaps this exacting separation also carried across into the co-operative movement peak body, accounting for the non-political and non-sectarian nature of the CFWA.

⁹⁰ Kenyon's (1983) report to the Western Australian State Labor Government concerned the potential of the co-operative model for both community based and self-employment business ventures as a possible employment strategy.

- Provide a central organisation for the promotion, development, protection and assistance for co-operative activity.

Kenyon recorded a number of specific member services provided by the CFWA during the 1980s, such as advice on accounting and banking, preparation of annual financial reports and organising training and development activities. He also referred to a range of administrative services to the Board of Directors, such as the organisation of district, regional and State-wide meetings. Lastly, Kenyon noted the capacity of the CFWA, in assuming the function of Secretary of the Co-operative Federation Trust Limited, to sign legal documents. The Co-operative Federation Trust Ltd was a registered company which had legislative and fund administration functions (Sandford, 1955; K. Smith, 1984) as specified in the *Corporations (Co-operative) Act 1943*.⁹¹ This therefore directly involved the CFWA in the legislative functions related to the formation, liquidating and changing of co-operative rules. According to Munro (2003), this CFWA function was entrenched in the co-operative legislation to ensure that business ventures that were not genuine co-operatives did not attempt to form under the co-operative legislation to escape other legislative requirements demanded by, for example, the *Commonwealth Corporations Act 2001* or its predecessors.

In August 2003, the CFWA Board of Directors ratified a new Strategic Plan which states that the purpose of the peak body is to be ‘The representative body for the promotion and development of the co-operative movement in WA’ (Co-operative Federation of Western Australia, 2003b, p 1). Its vision is ‘To be recognised as a leading authority on the Co-operative movement in Australia making a significant contribution to Western Australian business and society achieved through the active participation and commitment of its members’ (Co-operative Federation of Western Australia, 2003b, p 1). The political neutrality emphasised in both Sandford and Kenyon’s work is absent in this latest interpretation of the role of the CFWA.

The range of services provided by the CFWA in 2004 includes:

91 In mid 2004, as part of the restructure of the CFWA, the Co-operative Federation Trust was incorporated into the CFWA for organisational efficiency, then subsequently wound up (Co-operative Federation of Western Australia, 2005b).

- Development programs, seminars and workshops for co-operative Directors and managers on co-operative principles, governance and good commercial practices.
- Consultation with and presentations to State government on the *Companies (Co-operative) Act 1943* and matters affecting the development of Co-operatives in general or an individual co-operative
- Assistance with formation of co-operative companies.
- Advice and assistance to co-operatives on administrative matters including statutory obligations.
- Advice and assistance to co-operatives trading across State borders on implication of other State co-operative legislation and corporations law.
- Promotion and facilitation of co-operative between co-operatives - intrastate, interstate and internationally.
- Organisation of professional annual conference for members and persons interested in co-operative activity.
- As a member of the Co-operative Council of Australia Inc, the CFWA provides an influential avenue through which submissions can be made on matters of national importance.
- Maintenance of a register of members and details of other Western Australian registered co-operatives. (Co-operative Federation of Western Australia, 2004a)

The evolution and range of the CFWA activities outlined above reflect its particular approach as a peak body. A peak body can be defined as:

A representative organisation that provides information dissemination services, membership support, coordination, advocacy and representation, and research and policy development services for its members and other interested parties, (though) it does not involve direct service delivery. (Industry Commission, 1995, p 181; cited in Melville, 2003, p 3)

Another definition of a peak body is:

An organisation, with other organisations as members, formed to represent the collective views of its members to government, to the community and to other bodies. (Hamilton & Barwick, 1993, p 17; cited in Melville, 2003, p 3)

Melville (2003) argues that there is a gap in the literature and theory about the role, function and behaviour of this type of organisation. Melville's (2003) research provides insight into the operation of community services sector peak bodies and their relationship with government in influencing public policy while these organisations concurrently adjust to different economic circumstances arising

from a market economy. Notwithstanding the earlier definitions, Melville has settled on the following statement of a peak body as:

A non-government organisation whose membership consists of smaller organisations of allied interests. The peak body thus offers a strong voice for the specific community sector in the areas of lobbying government, community education and information sharing between member groups and interested parties. (Melville, 2003, p 5)

Melville argues that this definition captures ‘the intermediary position of peaks in relation to the development of government policy, their duty of representing, informing the particular sectors that form their constituency, and the communication of information to the wider community’ (Melville, 2003, p 5). Melville’s definition suggests that a peak body consists of three sets of important relationships. The first is between the peak body and the State or government. The second concerns the link between the represented, the membership, and the representative, that is the peak body. The final relationship involves the peak body and the wider community.

The CFWA is much more industry based than the community services peak bodies in Melville’s research. Further the CFWA represents a membership focused on commercial rather than community issues. However, similarities occur in the role of both sectors’ peak bodies and the external environment in which they operate. In the same way as the community sector, the Western Australian co-operative movement and its peak body is also adjusting to the impact of the market economy on co-operatives and seeking to ensure that government policy does not discriminate against the co-operative movement. Therefore, Melville’s research is a valuable starting point to analyse the efficacy of co-operative movement peak bodies in undertaking this role.

A comparison of the CFWA and the Canadian Co-operative Association, the Federal level peak body for the Canadian co-operative movement, and the United States National Co-operative Business Association, is instructive to identify similarities and differences between these peak bodies in representing their respective co-operative movements. Australia does not have directly comparable

national level peak bodies to these two organisations.⁹² However, the United States and Canada are, to some extent, also confronting the impact of agricultural restructuring and it is reasonable to suggest that the peak bodies representing the co-operative sectors in these countries would face similar issues to peak bodies in Australia. Further, the literature review identifies that much of the literature and research in relation to agricultural co-operatives emanates from these two countries. Therefore, a review of their peak bodies is informative for Australian co-operative movement peak bodies.

The Canadian Co-operative Association states that its purpose is to:

Support its members and the co-op sector through the provision of services in three core areas - development, government affairs & public policy, and common table. (Canadian Co-operative Association, n.d.)

As a point of contrast, the national co-operative movement peak body in the United States, the National Co-operative Business Association, states that it is the:

..... lead national membership association representing Co-operatives of all types and in all industries. We are democratically organized and operate according to internationally recognized co-operative principles. Through our comprehensive education, co-op development, communications, public policy, member services, and international development programs, NCBA helps co-ops strengthen their businesses so they can better serve their members. It also provides a strong, unified voice on Capitol Hill. (National Co-operative Business Association, n.d.)

Using Melville's (2003, p 5) peak body definition as a 'bench mark', the key elements of a peak body, while expressed differently, can be discerned in the statements of both the Canadian Co-operatives Association and the National Co-operative Business Association. Both peak bodies position themselves as the intermediary link between government and their memberships, by representing their membership to government and facilitating the development of constructive government policy. They both seek to inform and educate their membership on issues related to co-operatives, and communicate with the wider community about the role of the co-operative business structure in economic and social development.

92 The background of Australia's efforts to establish similar national level peak bodies representing the Australian co-operative movement is discussed in the next section.

Sandford (1955) and Kenyon's (1983) explanation of the role of the CFWA, as well as the recent CFWA statements (2003b; 2004a), indicate that the CFWA also undertakes elements of the functions and activities of a peak body as outlined in Melville's definition. However, there are some exceptions. The non-political and non-sectarian element is absent from Melville's definition and the Canadian and United States co-operative movement peak body statements. The legislative function of the CFWA contained within the current *Corporations (Co-operative) Act 1943* is another departure. Lastly, contrary to the Industry Commission (1995, p 181; cited in Melville, 2003, p 3) statement of a peak body, the CFWA undertakes activities which could be deemed 'service delivery', such as fee based consultancy services to proponents of embryonic co-operatives to establish their business ventures (Booth, 2004).

Additionally, neither Kenyon (1983), the 2003 strategic plan (Co-operative Federation of Western Australia, 2003b) nor the statement of services (Co-operative Federation of Western Australia, 2004a) purposefully separate the role and functions of the CFWA into the discrete internal and external foci suggested in the peak body definition. The United States and Canadian co-operative movement peak bodies also do not arrange their purpose and function according to this division.

However, the sentiments of the CFWA statements, combined with many interview discussions about the role of the CFWA, make it clear that it seeks to represent its members and the Western Australian co-operative movement. It aggregates member co-operatives into a single voice to ensure that their individual needs are met via the collective structure of the peak body more efficiently than if these co-operatives independently sought these outcomes. The CFWA undertakes a number of external functions, such as advocacy and policy advice to government and other external institutions on co-operative matters. This has become a greater focus following the introduction of the 2003 Strategic Plan which contains a specific objective related to government affairs (Co-operative Federation of Western Australia, 2003b). It also performs a range of internally focused membership activities, such as holding conferences and seminars to provide information and advice about topical co-operative issues. Therefore, while the 2003 strategic plan interweaves these activities, they are clearly identifiable as important foci for the peak body. While the CFWA has statements concerning these activities and does

attempt to implement these, the issue for the CFWA is the ability to achieve the tasks it sets itself.

Historical Overview

The historical landscape of the CFWA provides insights into its longevity as a feature of the Western Australian co-operative movement. As argued in Chapter Four, the early Western Australian co-operative movement was essentially an agriculturally based movement. The formation of a peak body for the Western Australian co-operative movement grew out of the need to coordinate the activities of Westralian Farmers Co-operative and a myriad of small rural and regionally based co-operatives servicing the agricultural industry (Sandford, 1955). Chapter Four revealed that the early Western Australian co-operative movement evolved into two strands. One strand comprised the Westralian Farmers Co-operative with its network of its own co-operative retail stores in many rural towns. The second strand comprised independent co-operatives in the towns where Westralian Farmers Co-operative itself did not have a co-operative store. These independent co-operatives also became retail agents for Westralian Farmers Co-operative wholesale activities.

According to Sandford, tension developed between these two strands when some independent local co-operatives sourced products outside the Westralian Farmers Co-operative wholesale range of supplies. Over time, as these small co-operatives purchased greater quantities of supplies from private traders, they were unwittingly redirecting profits to the private traders and away from the wholesale Westralian Farmers Co-operative and therefore farmer members. Co-operative movement proponents recognised this unintended consequence as potentially threatening to the future evolution of the embryonic Western Australian co-operative movement.

The solution, promoted at a co-operative conference in 1919, was to form a peak body to provide this overarching coordination and strengthen the co-operative movement throughout Western Australia. The Co-operative Federation of Western Australia (Inc) was formed within months of the conference (Kenyon, 1983; Sandford, 1955), making it the first co-operative movement peak body in Australia. Initially the CFWA struggled to provide the coordinating role it was established to perform. Sandford (1955) attributes the problems of the CFWA to coordinate the

fledgling co-operative movement to the primitive infrastructure of the period. He argues that it was not possible, given the transport and communication systems of the period, to organise the geographically diverse independent co-operatives into a cohesive movement which worked with other co-operatives or with Westralian Farmers Co-operative (Sandford, 1955). As an outcome, he contends, only those individuals and co-operatives associated with Westralian Farmers Co-operative, which had well-established transport and communication links, were able to develop an overall understanding of the co-operative movement.

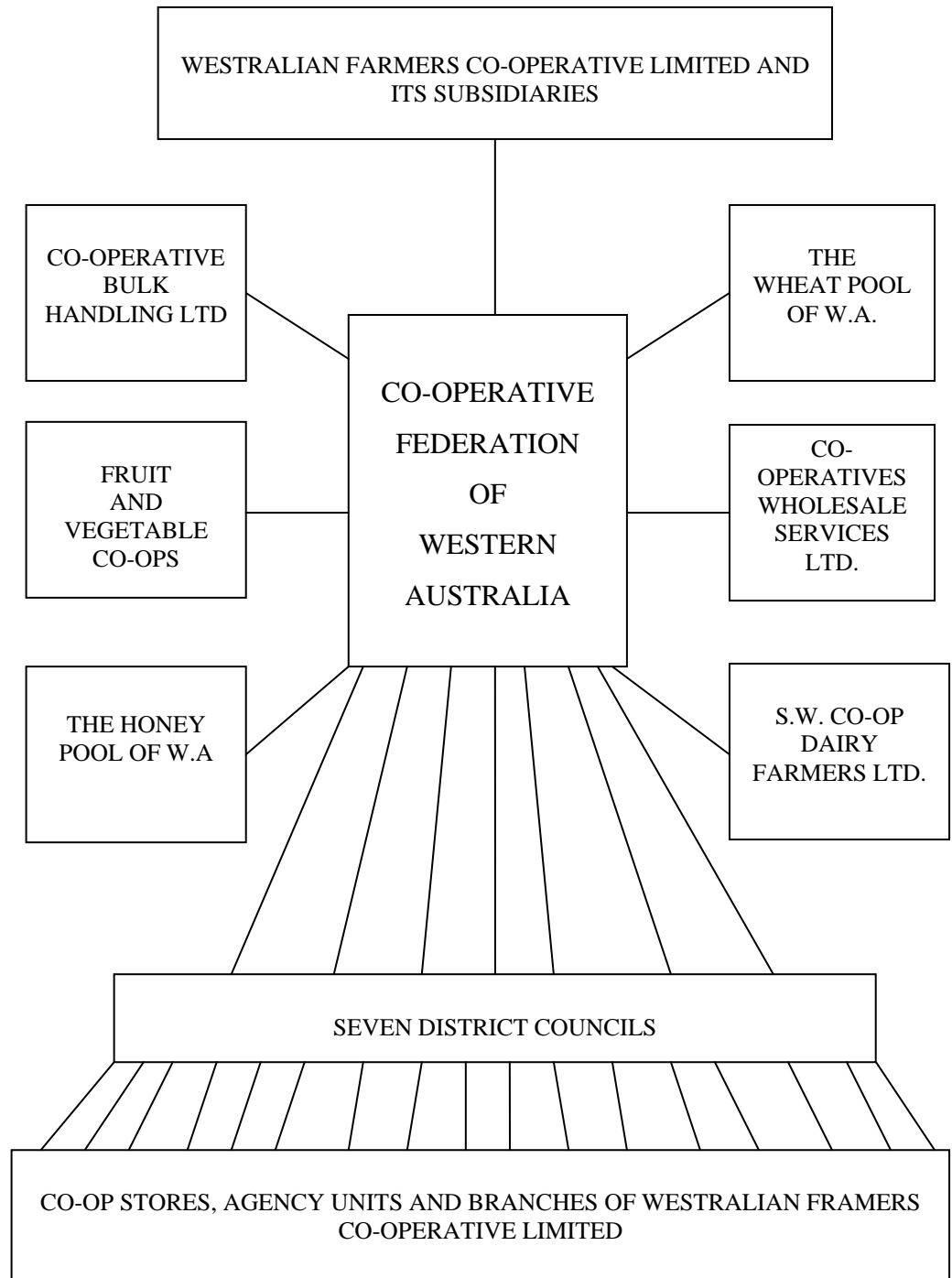
Sandford argues that up until the 1930s the CFWA was a ‘voluntary goodwill organisation’ (Sandford, 1955, p 178), and consequently unable to undertake the role and functions of a peak body as defined by Melville (2003). As the CFWA matured as a peak body, it was able to exert more influence over the co-operative movement. The first evidence of this increasing capacity arose after the Depression when the peak body championed the introduction of contracts between the Westralian Farmers Co-operative and the independent country town co-operatives (Sandford, 1955). These contracts ensured greater coordination between the separate parts of the co-operative movement and removed damaging practices, such as sourcing products outside the Westralian Farmers Co-operative’s wholesale network, which inadvertently undermined the co-operative approach to business activity. These contracts also established the CFWA as the overall co-operative movement arbitrator on any contractual disputes that arose (Sandford, 1955). Sandford (1955) argues that managing the new contract agreements enabled the CFWA to fill its peak body role and subsequently develop an overall coherence within the Western Australian co-operative movement.

Sandford (1955, p 303) maps the structure of the CFWA in the mid 1950s, via a diagram reproduced on the following page. The diagram reveals that representatives from the larger agricultural co-operatives dominated the CFWA Board, complemented by delegates from seven district co-operative councils located throughout rural Western Australia. Only one of the delegates to the CFWA Board was to be a manager of a member co-operative, indicating the authority of farmer

members and Directors on the CFWA Board of Directors (Sandford, 1955).⁹³ The diagram literally and figuratively demonstrates the centrality of the CFWA in the Western Australian co-operative movement in this period, reinforcing the point made in Chapter Four that the Western Australian co-operative movement was essentially an agriculturally based movement.

93 This can be contrasted with the makeup of the current the CFWA Board of Directors, in which only one peak body Director is also a Director of a member co-operative, while the remaining peak body Directors are employed as managers of co-operatives.

The Contemporary Picture: 1955



Source: Sandford (1955, p 303)

Given the influence of Westralian Farmers Co-operative over the co-operative movement, there was a deeply entwined relationship between the CFWA and the dominant co-operative. This 'less than arm's length' relationship continued until the Westralian Farmers Co-operative converted to a corporation in the mid 1980s (Booth, 2004; Munro, 2003). Several examples illustrate this close connection between the two organisations. Mr Walter Harper, the key driver in the formation of Westralian Farmers Co-operative and the Western Australian co-operative movement, was also the CFWA chairman from its inception in 1919 until 1953 (Munro, 2003; Sandford, 1955). He was succeeded by Mr Ernest Thorley Loton, who also assumed the dual roles of chair of the CFWA and Westralian Farmers Co-operative (Munro, 2003; Sandford, 1955). Up until 1948, the Westralian Farmers Co-operative secretary also performed the CFWA secretariat function (Sandford, 1955), and the CFWA office was co-located at the Westralian Farmers Co-operative head office for many decades (Munro, 2003).

The close and sustained link between the CFWA and Westralian Farmers Co-operative perhaps set some limits on the independence of the CFWA to function as a peak body in the manner described by Melville. However, the motives of Westralian Farmers Co-operative in overseeing the CFWA at this period of the Western Australian co-operative movement's evolution justified the close relationship. Without this connection, the CFWA would not have survived and the Western Australian co-operative movement may not have evolved to achieve considerable influence in the Western Australian economy in the post World War II period. Sandford's (1955) account of the association between the two organisations demonstrates considerable benevolence and honourable intentions on behalf of the Westralian Farmers Co-operative towards the CFWA. Munro (2003) concurs with Sandford's interpretation and maintains that Westralian Farmers Co-operative felt a great responsibility for the Western Australian co-operative movement and was jealously supportive of the peak body. While Munro believes that Westralian Farmers Co-operative itself had outgrown the co-operative structure by the 1950s, he maintains that Westralian Farmers Co-operative continued to provide funds to the CFWA, as well as services and infrastructure to support the co-operative

movement.⁹⁴ Booth (2004) also comments on the residual nature of this goodwill as Wesfarmers donated a modest sum of money to the CFWA in 2003, although it was under no obligation to do so and had converted to a corporation 15 years earlier.⁹⁵ A Wesfarmers subsidiary, Wesfarmers Federation Insurance, continued to sponsor the CFWA annual conferences for several years, demonstrating the longevity of this relationship.

In addition to the CFWA gaining authority as a peak body from its close association with the powerful Westralian Farmers Co-operative, Munro (2003) also attributes the strength of the CFWA to its ability to influence government via regionally based politicians, a peak body function highlighted in Melville's definition. As outlined in Chapter Four, Munro argues that the CFWA ability to shape public policy was linked to the rural base of the Western Australian economy and the influence exerted by agricultural co-operatives in the regions. Additionally, many of Western Australia's politicians were also from regional areas and Directors had considerable formal and informal access to their politicians to discuss the position of agricultural co-operatives within the broader agricultural industry. Consequently, at that time, the Western Australian agricultural co-operative sector operated in a very favourable public policy environment.

Munro further reports that due to the privileged position of the agricultural co-operative sector in Western Australia in that period, the CFWA did not have to actively lobby politicians, but simply engage with them to ensure that the status quo was retained. According to Munro, the CFWA continued to exert significant influence in establishing and maintaining a positive co-operative public policy environment by the Western Australian government up until the mid 1980s.

Munro himself was a significant CFWA actor from the early 1970s to the mid 1990s. After approximately a decade of employment at Westralian Farmers Co-

94 Despite Munro's view that Westralian Farmers Co-operative was essentially behaving as a corporate entity from the 1950s, it continued with the co-operative structure for another three decades before it converted to a corporate structure in 1984.

95 As discussed in Chapter Four, this 2003 donation to the CFWA was linked to Wesfarmers dismantling an overarching holding company which was still structured as a co-operative. The co-operative structure was retained when Westralian Farmers Co-operative converted to a corporation in the mid 1980s to ensure farmer control of Wesfarmers and to protect the company from potential hostile take-over bids (Booth, 2004). As Wesfarmers attained subsequent commercial success, its large size served as a shield against threats of hostile take-overs and hence the safeguards embedded in the co-operative structure became redundant. Wesfarmers donated some funds to the CFWA from the winding up of the co-operative remnant.

operative, providing accounting services to member co-operatives, Munro established his own accounting firm. Westralian Farmers Co-operative supported Munro's transition to self-employment and assisted him by providing office space at the co-operative's head office. Known at the time as Munro and Wiley,⁹⁶ the firm had a particular focus on the agricultural co-operative sector due, in part, to Munro's former connection with Westralian Farmers Co-operative. Munro, as a partner in the firm, personally continued to provide accounting services to the agricultural co-operative sector, which included the winding up of non-active rural based co-operatives. Early in the 1970s, a CFWA registered co-operative auditor⁹⁷ from another accounting firm retired with about 30 rural co-operative clients. As that firm was not interested in retaining this function, Munro agreed that his firm would assume auditing responsibility for these 30 co-operatives. As a result of this connection with the Western Australian co-operative movement, Munro's firm went on to do other accounting or related activities on behalf of the CFWA.⁹⁸ This relationship between Munro's firm and the CFWA became more formalised in the early 1980s when Munro's firm was appointed by the CFWA as Secretary, undertaking secretariat and member service function on behalf of the CFWA. Munro personally provided many of these services until his retirement in the mid 1990s.⁹⁹

In 1996, the CFWA Board of Directors withdrew from the arrangement with Munro and Wiley and directly employed Mr John Booth as Executive Officer on a full-time basis. Booth occupied this position until January 2004, when the position of Executive Officer was made redundant following the decision of the CFWA Board of Directors to restructure the CFWA. The CFWA Board of Directors elected to

96 The firm is now known as Munro's, Certified Practising Accountants.

97 The *Companies (Co-operative) Act 1943* requires that the auditors of co-operatives be registered with the CFWA. This requirement is still current, although apparently not now widely known in the co-operative movement, the auditing industry or DOCEP which receives copies of co-operative audits (Booth, 2004). Consequently, auditors who are not registered with the CFWA inadvertently audit some co-operatives.

98 According to Booth (2004), at that time the CFWA was the body responsible for auditing Western Australian co-operatives, which at a surface level conferred authority to the CFWA. However many of these co-operatives were agents of Westralian Farmers Co-operative, which implied less than an 'arm's length' audit.

99 In addition to traditional Secretary functions of preparing materials for the Board of Directors and acting as the point of contact for external stakeholders, as the CFWA Secretary, Munro was also very involved in the auditing and accounting functions of individual member co-operative businesses as, at the time, this was deemed one of the key functions of the CFWA. The Secretary was highly embedded in the activities of member co-operatives. By contrast, the incumbent Secretary and the CFWA does not view its role as being this involved at this level in its members' businesses (Interviewee 797, 2004).

contract the role of Secretary to an executive management services consultant, Mr Peter Wells, of Peter Wells and Associates Pty. Ltd (Allomes, 2004).

CFWA Links with other Australian Co-operative Movement Peak Bodies

Co-operative Federations operate in New South Wales, Queensland, South Australia, Victoria and Western Australia, and as peak bodies, perform similar functions. However, different organisational models are applied. Some Co-operative Federations employ full-time or part-time staff to undertake the function of Executive Officer, while others have opted for the contracted secretariat model currently adopted by the CFWA. Each peak body has developed in its own way in response to its contextual social, economic and political realities. It is clear that in the early co-operative movement of Western Australia, the co-operative model was conceived as an economic structure rather than as a vehicle for not-for-profit enterprises. This commercial co-operative focus was also inculcated into the values base of the CFWA and this commercial focus has continued as a primary orientation of the CFWA in the present day. The commercial trading nature of the CFWA is also embedded in the *Companies (Co-operative) Act 1943*. As a result, the non profit co-operative sector has not gained traction in Western Australia.

The Co-operative Federation of Victoria (CFV), in contrast, has commercial co-operative members, but also embraces non-profit co-operatives (Co-operative Federation of Victoria, n.d.). This difference in orientation between the CFWA and the CFV can be partly attributed to two factors. Firstly, the influence of the Catholic Church in Victoria in developing a co-operative movement based on social justice concepts charted the co-operative movement towards the community based not-for-profit sector. Secondly, the lack of co-operative legislation for many years in Victoria suitable for commercially focused agricultural co-operatives drove commercial co-operatives to register under the then State-based *Companies Act*, and subsequently the Commonwealth *Corporations Act*, although co-operative legislation was introduced in Victoria in the 1950s. The New South Wales Co-operative Federation also has a strong non-trading co-operative membership reflecting that State's own co-operative movement evolution.

Although there were Co-operative Federations in most Australian States, Kenyon (1983, p 49) comments that Western Australia had the 'strongest co-

operative ethos' with over 600 co-operatives.¹⁰⁰ Kenyon (1983) and Lyons (2001a) also assert that the CFWA was an influential co-operative peak body not just in Western Australia but also nationally up to the 1980s. Smith verifies the role of Westralian Farmers Co-operative and its contribution to the CFWA and the national peak body in his history of Wesfarmers (K. Smith, 1984). The Co-operative Federation of Victoria (n.d.) confirms that the CFWA also assumed a key role in the national co-operative movement.

The CFWA, along with its sister peak bodies in New South Wales and Queensland, formed a national peak body, the Co-operative Federation of Australia, in the mid 1940s (Co-operative Federation of Victoria, n.d.; K. Smith, 1984).¹⁰¹ The Co-operative Federation of Australia was based in Canberra and largely funded by Westralian Farmers Co-operative via the CFWA (Lyons, 2001a). The power of the Western Australian co-operative movement at that time to influence the national peak body is demonstrated by the appointment of the CFWA Executive Officer to the Executive Officer position for the Co-operative Federation of Australia in 1965. A Westralian Farmers Co-operative employee was appointed as an Australian representative to the International Co-operative Alliance, further integrating Westralian Farmers Co-operative into the wider Australian and international co-operative movement (K. Smith, 1984). The influence of Westralian Farmers Co-operative over the Western Australian co-operative movement now extended nationally via the CFWA to the Co-operative Federation of Australia with links into the International Co-operative Alliance.

However, according to Lyons (2001a), the Co-operative Federation of Australia collapsed in the 1980s. He attributes this to the significant change in the agricultural co-operative sector in Western Australia brought about by the conversion

100 The reference to over 600 co-operatives in Western Australia in the 1980s is not supported by available co-operative registration data at DOCEP or confirmed in anecdotal recollections from actors involved during this period of co-operative activity. Booth suggests that the large number of co-operatives quoted by Kenyon could possibly be explained by each rural merchandising co-operative under the overall banner of Wesfarmers deemed as a separate entity. However, Booth does not believe that it is credible that Western Australia ever had that many co-operatives. Kenyon may have included community-based organisations fashioned on the co-operative values but not incorporated under the *Companies (Co-operative) Act 1943* to arrive at this estimate.

101 The Victorian Federation joined in 1970 and the South Australian Federation joined at a later date. Tasmania, Northern Territory and the Australian Capital Territory do not have Co-operative Federations and therefore were not been directly involved with the national body although their co-operative sector interests were part of the overall national body coverage (Co-operative Federation of Victoria, n.d.).

of Westralian Farmers Co-operative, the major funding source to the Co-operative Federation of Australia, to the corporation, Wesfarmers, in 1984. The Co-operative Federation of Victoria (n.d.) argues that, concurrently, the Co-operative Federation of New South Wales (CFNSW) became disenchanted with the national peak body and sought to introduce an alternative structure. The CFNSW withdrew from the national peak body and independently formed the Australian Association of Co-operatives Ltd (AAC) in 1986. Other State Federations did not support this move and they elected to retain the Co-operative Federation of Australia as the national peak body for the co-operative sector (Co-operative Federation of Victoria, n.d.). However, it appears that the removal of the NSW Co-operative Federation and the loss of Wesfarmers funding and support was terminal for the Co-operative Federation of Australia, as Lyons argues that the Australian Association of Co-operatives became the coordinating peak body from 1986 to 1993 (Lyons, 2001a). Despite this national peak body status conferred by Lyons, it appears to have had a New South Wales focus, rather than a national flavour. While Lyons credits the Australian Association of Co-operatives with strong leadership and provision of services to the co-operative sector, it too subsequently collapsed following some financial difficulties resulting from bad debts (Lyons, 2001a). The State Co-operative Federations then established, in 1993, the National Co-operative Council. This organisation was renamed the Co-operative Council of Australia Inc (CCA) with the Co-operative Federations of New South Wales, Queensland, South Australia, Victoria and Western Australia as members (Griffiths, 2004). It continues as the national peak body for the Australian co-operative movement.

According to the CFWA, the CCA provides it with an influential avenue through which submissions can be made on matters of national importance (Co-operative Federation of Western Australia, 2004a). However, the CCA lacks a dedicated secretariat and serviced office, and is only convened on an *ad hoc* basis. Its achievements as a national peak body suggest that it does not have a unified and cohesive State Co-operative Federation membership and further, that it has marginal influence on issues of national importance to the Australian co-operative movement. Griffiths (2004) reports that in the last five years, the CCA has only become involved in two issues, firstly, the drive for updated co-operative legislation and secondly, taxation matters. While acknowledging the amiable liaison between the State Co-

operative Federations, Griffiths laments the reluctance of the State Co-operative Federations to regularly and consistently engage in ongoing co-ordinated public policy initiatives, citing two significant public policy matters which, in his view, have been neglected at the national level. The first is the International Accounting Standard 32,¹⁰² an issue strongly debated by the New Zealand Co-operative Association and the ICA, but with limited discussion within the Australian co-operative movement. The second concerns the 2002 review of the Commonwealth *Trade Practices Act 1974*,¹⁰³ an important piece of legislation underpinning the National Competition Policy. This legislation has implications for the co-operative business model due to the perceived anti-competitive nature of the collective approach to co-operative business that can be interpreted as engaging in collusive behaviour. Co-operatives can therefore be deemed as operating contrary to the *Trade Practices Act 1974*. This interpretation of the co-operative business structure presents a potentially significant legal and structural impediment to the development of the co-operative business model in Australia. Despite the significant implications of this review, Griffiths notes that the national peak body did not take it up as an issue.¹⁰⁴

This lack of networking and a collective approach by various Australian States' peak bodies reinforces the fragmented nature of the contemporary Australian co-operative movement. Furthermore, none of the State-based peak bodies nor the national peak body, the CCA, are members of the ICA, counter to the Statement on the Co-operative Identity of co-operatives helping other co-operatives and co-operatives contributing to the community (International Co-operative Alliance, n.d.). While co-operatives are State-based entities operating under State legislation, the lack of a serviced national peak body has left a vacuum for the development of

102 According to Griffiths (2004) the International Accounting Standard 32 would result in the 'share capital of most co-operatives being classified as liabilities rather than equities with three major impacts - the preparation of misleading financial statements, negative impacts on the ability of co-operatives to raise finance and conduct business and the potential for consequential legal issues arising in relation to solvency test requirements.'

103 Co-operative Federation of New South Wales (2002, p 4) argued in its submission to the Review of the *Trade Practices Act 1974*, that the Act 'does not currently recognise the fundamental differences between co-operatives and other corporate entities. The *Trade Practices Act 1974* is targeted at preventing the anti-competitive practices of corporations and has an inherent bias against businesses joining together. The Co-operative Federation submits that the *Trade Practices Act 1974* does not recognise the pro-competitive nature of the co-operative structure, being small businesses co-operating through co-operatives to compete against other larger businesses.'

104 Two State peak bodies, the VCF and the NSWCF, prepared submissions independently for the review.

complementary and coordinated State or Commonwealth level public policy for the co-operative movement.

CFWA Diminution in Peak Body Status

The contrast between the period in which the CFWA was an influential peak body within Western Australia and nationally, and that of the early 21st century, is striking. It is evident that the influence of the CFWA as peak body has diminished. For much of its history, the standing of the CFWA was directly linked to the growth and support of Westralian Farmers Co-operative. The conversion of Westralian Farmers Co-operative to a corporation meant that the CFWA lost its major benefactor. The trend identified by Munro (2003) towards the winding up of rural town co-operatives also reduced the membership base of the CFWA and therefore its financial base. Other concurrent events also contributed to the waning of the CFWA influence from the mid 1980s. Munro (2003) argues that the relocation of the CFWA from its co-located offices at Westralian Farmers Co-operative head office to that of the Grain Pool contributed to the weakening of the CFWA as a peak body. According to Munro, the CFWA did not receive the administrative and financial support or the same level of goodwill in the new location that had characterised the CFWA relationship with Westralian Farmers Co-operative. Further, in the 1980s, the CFWA experienced a hiatus arising from inappropriate Board of Director decisions that significantly undermined its authority as a peak body to external actors such as Western Australian politicians and government bureaucrats. This incident also severely eroded its financial base (Munro, 2003). While the CFWA membership wrested back control of the CFWA from the Board of Directors and re-established it as the peak body, the event occurred against a background in which the wider implications of the Wesfarmers conversion had diminished the influence and relevance of the CFWA and the importance of the co-operative movement in Western Australia.

The CFWA has not been able to regain its former authority as the peak body driving the direction and evolution of the Western Australian co-operative movement. The conversion of the highly influential Westralian Farmers Co-operative to a corporation symbolises the broader issues confronting the Western Australian co-operative movement and its peak body in adjusting to a market economy. The

recent restructure of the CFWA can be interpreted as an indication of a desire by some member co-operatives to rejuvenate their peak body. It remains to be seen what direction the peak body will go following the implementation of these substantial changes.

Analysis of Contemporary Issues Confronting the CFWA

The next section of the chapter explores how the CFWA is managing its external public role along with the internal issues associated with servicing its membership. External issues concern the impact of neoliberalism on government public policy, on the agricultural industry and on agricultural co-operatives and therefore indirectly on the activities of the CFWA. Specifically, the relationship between the CFWA and Western Australian State government departments, and the ability of the CFWA to influence public policy, is explored. Secondly, the analysis delves into internal issues at the CFWA, such as its relationship with its membership, the role of the Board of Directors (the Council), the Board's relationship with its appointed agents (employees or consultants) and the value of membership.

Knowledge of the CFWA as a Peak Body for the Co-operative Movement

The CFWA Council and Secretary view the CFWA as the peak body representing the Western Australian co-operative movement (Interviewee 649, 2003; Interviewee 797, 2004). This self identification of the CFWA as the peak body was also evident in discussions with the former Executive Officer (Booth, 2004). Further, interviews with individuals associated with co-operatives which are members of the CFWA confirm that they also view it as their peak body on co-operative matters (Interviewee 650, 2003; Interviewee 660, 2002; Madden, 2003b). Other interviews revealed that a positive relationship is apparent, in that the greater the interaction between an organisation or an individual with agricultural co-operative businesses, the capacity for the CFWA to be perceived as the peak body representing the co-operative movement is higher. The converse is also apparent, in that the further an actor is from the co-operative movement, awareness of the CFWA declines. This diminishing awareness only becomes an issue for the CFWA when the actor has some ability to influence matters of interest to the CFWA or the Western Australian co-operative movement.

Competition with Non-Co-operative Movement Peak Bodies for Membership

A good understanding of the role and function of the CFWA as the peak body is to be expected by members of registered co-operatives, particularly those co-operatives that are members of the CFWA. However, up to 30 per cent of registered co-operatives have elected not to join the CFWA as their representative peak body. The research has identified one agricultural co-operative that choose an alternative peak body to represent its interests (Interviewee 654, 2003). The CEO claimed that the agricultural co-operative did not see any value in belonging to the CFWA. He believed that the CFWA focus on representing co-operative business was not a sufficiently motivating factor to stimulate a decision to become a member. He further argued that other peak bodies and organisations were able to meet the representative and professional development needs of his co-operative. He maintained that both he and the Board of Directors gained their professional development and support from membership of organisations such as the Australian Institute of Management (AIM) and the Australian Institute of Company Directors (AICD). He further argued that, as co-operatives were a subset of small to medium enterprises, there was no real need for a peak body specifically for businesses that structured themselves as co-operatives. Consequently, this agricultural co-operative was a member of the Chamber of Commerce and Industry of Western Australia (CCI(WA)).

The CCI(WA) presents itself as the peak body in Western Australia for the private enterprise sector and undertakes the activities of member services and influencing a favourable public policy environment (Chamber of Commerce and Industry of Western Australia, n.d.). The CCI(WA) webpage states that it provides quality, cost effective support and services to enable members to build their businesses. Secondly, it lobbies government to create an economic and legislative environment which stimulates the role of private enterprise. It claims to represent over 5,000 businesses,¹⁰⁵ ranging from self employed and small business through to Western Australia's largest enterprises in all industries throughout the entire State. The CCI(WA) states that it is committed to the principles of free enterprise and argues that Western Australia will benefit from the implementation of National

¹⁰⁵ The webpage does not state the actual number of financial members of CCI(WA).

Competition Policy (Chamber of Commerce and Industry of Western Australia, n.d.).¹⁰⁶

The views of the agricultural co-operative CEO raise significant issues for the co-operative movement and its peak body. Firstly, a peak body is not overtly subject to competitive processes, as being the 'peak' suggests that it is the only representative body for an industry sector. However, in a neoliberal environment, the CFWA is unable to assume that its natural constituency; that is co-operatives registered under the *Corporations (Co-operative) Act 1943*, will routinely seek membership of the CFWA simply because they are registered co-operative businesses. By recasting co-operatives simply as small to medium businesses, the CCI(WA) is able to embrace co-operative businesses without the need to address the specific values underpinning the co-operative business model. Categorising co-operatives as small to medium businesses essentially renders the co-operative structure as meaningless. However, for the CFWA, the business structure is the sole basis of membership. Of concern for the CFWA, the CCI(WA) represents many of the neoliberal values which, as Chapter Three revealed, undermine co-operative values. Hence, a preference of an agricultural co-operative for membership of the CCI(WA) over the CFWA is a potentially threatening development to the co-operative movement and its peak body which needs to be closely monitored by the CFWA.

Secondly, the views of the CEO reflect a lack of understanding of the essential differences between the co-operative business model and the IOF model. As a recently formed agricultural co-operative, and therefore closely observed by industry and rural media commentators, this lack of commitment by the CEO to the co-operative philosophy and the wider co-operative movement must be of further concern to the CFWA. Thirdly, as the co-operative's Board of Directors had, at that point in time, not over-ridden the CEO's views, it can be imputed that they also did not perceive value in belonging to the co-operative movement peak body, suggesting that it is not just one individual but a leading group of farmers who also share this view. Lastly, the CEO's position demonstrates that he cannot discern any value in promoting the agricultural co-operative on the basis of the co-operative difference,

106 See Chapter Three for a discussion of National Competition Policy in the context of agricultural co-operatives.

and potential competitive advantage, to influential external stakeholders. This attitude further undermines the purpose of the CFWA as a peak body. This example demonstrates that the CFWA cannot afford to let registered co-operatives be unclear about which peak body best represents their particular interests.

The Public Sector

Actors within government departments which interface with the agricultural co-operative sector are generally aware of the CFWA as the organisation representing the State's co-operative movement (Interviewee 659, 2003; Interviewee 680, 2003; Interviewee 684, 2003; Interviewee 685, 2002). The existing knowledge within relevant government departments about the CFWA and its role as a peak body suggests that the CFWA is achieving one of its peak body functions, namely presenting its collective views to government.

The Western Australian Department of Agriculture, the Department of Consumer and Employment Protection,¹⁰⁷ the Department of Local Government and Regional Development and the various Development Commissions and Business Enterprise Centres, as well as local governments, are potential contact points for actors seeking initial information and advice about co-operatives. With the exception of the Department of Agriculture that has some internal capacity to deal with initial queries about agricultural co-operatives, the research indicates that staff associated with government agencies do not attempt to personally deal with queries from proponents of embryonic agricultural co-operatives. Staff prefer to redirect individuals to the CFWA.

Some government departments have implemented *ad hoc* mechanisms to support the agricultural co-operative model. The Western Australian Department of Agriculture has provided advisory and financial incentives to the proponents of embryonic co-operatives. To illustrate, the Challenge Dairy Co-operative obtained considerable funds as part of the dairy industry restructuring package to purchase a dairy processing plant (Western Australian Department of Agriculture, 2001a), and

107 The counterparts of this department in Victoria, South Australia and New South Wales have detailed websites providing dedicated co-operative information on registration processes and co-operative legislation. The New South Wales department responsible for co-operative registrations and legislation had a large staff and was involved with co-operative research. The research activity was subsequently relocated to ACCORD.

an informal farmers group received Department funds for a feasibility study for their proposed co-operative venture (Interviewee 680, 2003).¹⁰⁸

The Western Australian Department of Consumer and Employment Protection provided the CFWA with a \$15,000 grant in 2003/4 to deliver professional development on behalf of the Department to co-operative businesses about the proposed co-operative legislation. The grant was a recognition by a government department that it did not have the institutional arrangements or resources to undertake this function and that this ability already existed within the CFWA. The development work associated with drafting new co-operative legislation has also provided the CFWA with a vehicle to build awareness of the Western Australian co-operative movement among the senior staff of various government departments and their Ministers. Nevertheless, these examples of constructive interaction between the CFWA and government agencies, when contrasted with its former ability to influence public policy in the broader economic and political environment, reveal that the influence of the CFWA and the co-operative movement has lessened.

CFWA Connections with Other External Agencies

The research suggests that the further away an interviewee is from the activities of agricultural co-operatives, knowledge of the CFWA as the peak body declines (Interviewee 655, 2003; Interviewee 689, 2002). This group of interviewees represent organisations such as farmer industry associations, the rural media, professional institutions in occupations such as accounting, finance and the law, the tertiary education sector and agribusiness management consultants. The relatively low awareness in this group of the CFWA is particularly significant for the peak body as individuals from this group are very influential in the agricultural industry as professional advisors. Actors in this group assist and advise farmers about their farm business and in the process can exert influence over farmers about economic and political issues in agriculture. If the knowledge of professional advisors about the agricultural co-operative sector and the peak body representing this sector is low, they are unable to provide appropriate advice or balanced opinions to farmers about the economic benefits of forming co-operatives.

108 The farmers group comprised five local community members who were exploring agricultural value adding opportunities in their region, possibly via a co-operative structure.

Agribusiness Consultants¹⁰⁹

To illustrate this point, an agribusiness consultant (Interviewee 689, 2002) has not had the need to liaise in a professional sense with the peak body, despite having clients who are members of agricultural co-operatives. However, he became aware of the CFWA in the late 1990s through the NGC study tours and subsequent presentations coordinated by the Western Australian Department of Agriculture about co-operatives.¹¹⁰ Booth (2004) asserts that in his time at the CFWA, the peak body rarely had agricultural co-operative inquiries emanating from agribusiness or management consultants. He claims to have interacted with most of the consultants working in the agribusiness area, particularly within the niche industries, and advised them of the benefits to farmers of adopting the co-operative business structure. Booth also argues that the greatest detriment to the formation of new agricultural co-operatives in the niche areas is the role of the private sector agribusiness and management consultant. In his view, private consultants are ‘cherry picking’, by targeting the most economically viable niche sectors and convincing farmer groups to develop companies, tempting farmers with the prospect of higher profits from listing these companies on the Australian Stock Exchange if successful.¹¹¹ Yet, Booth argues, the niche sectors would benefit most from adopting the co-operative structure. Booth contends that consultants are also motivated by self-interest to promote the corporate structure over the co-operative structure, as there is greater scope for consultant and management fees associated with establishing a company than forming a co-operative business.

As Western Australian farmers readily seek the advice of agribusiness consultants, agribusiness and management consultants are significant gate keepers to farmers (Marsh & Pannell, 1999). If the CFWA wishes to influence an important group that in turn influences farmers’ decisions about business strategy, developing the knowledge of the agribusiness consultants and advisors linked to agricultural niche industries about the co-operative option is a worthwhile strategy.

109 Agribusiness consultants and advisors undertake a function that was often formerly delivered by Department of Agriculture extension officers.

110 Appendix Three examines the NGC study tours and seminars.

111 Munro, as discussed in Chapter Four, noticed a similar pattern in the 1980s with ‘entrepreneurs’ working in these niche industries.

Agricultural Industry Peak Bodies

Western Australia has two main industry associations representing the agricultural industry - the Western Australian Farmers' Federation (WAFF) and the Pastoralists and Graziers Association (PGA). Both have a number of affiliated smaller industry associations under their umbrella. The two agricultural industry associations embrace different political perspectives on agricultural industry policy; however, neither has a policy position on the agricultural co-operative sector.

The PGA interviewee, actively favouring agricultural industry restructuring, expressed a personal view that the co-operative structure was only useful for those farmers who could not survive in the free market based agricultural industry on the basis of their own business acumen (Interviewee 656, 2003). The WAFF interviewee acknowledged the benefits of co-operative businesses in the agricultural industry, particularly the potential of co-operatives to rein in the excesses of a market economy (Interviewee 655, 2003). When the debate about the future of CBH as a co-operative was topical, representatives from both WAFF and PGA sought advice from the CFWA on the merits or otherwise of retaining the CBH as a co-operative (Booth, 2004; Interviewee 655, 2003). WAFF was also instrumental in driving the agenda for collective bargaining in the dairy industry and actively supported the formation of the Challenge Dairy Co-operative (Economics and Industry Standing Committee, 2003).

Managing the Tension Arising From Internal and External Foci of a Peak Body

Peak bodies such as the CFWA are complex organisational structures. Melville's (2003) definition of a peak body suggests that this type of organisation performs dual and possibly competing roles. Firstly, a peak body advocates on behalf of and represents its members in the external environment and, secondly, it services its membership. Prioritising and balancing these roles can lead to tensions within the peak body.

The CFWA, until its 2004 restructure, tended to focus more on the membership side of its peak body functions (Booth, 2004) than on adopting an external orientation on public policy issues and promoting the co-operative alternative to the wider community. Several factors can explain the internal focus of the CFWA on its membership activities. As suggested by Munro (2003), in the past

the CFWA did not have to adopt a strong external public policy role to ensure that the co-operative movement functioned in a favourable public policy environment, due to its close linkage with Westralian Farmers Co-operative. Therefore, the organisation did not need to develop the culture of engaging in debates about public policy, although this advocacy role is a key feature of a peak body. Over time, the changing external environment lessened the influence of the co-operative movement in the overall economic performance of Western Australia. In this contracting environment, with diminishing access to government and politicians, the natural response of a peak body is to retreat and focus on its own membership. This comprises activities for members, such as timely dissemination to members of information on topical co-operative movement issues, arranging conferences and guest speakers, providing specific advice to individual member co-operatives and supporting potential members in new co-operative start-ups.

In the view of the former Executive Officer, the most appropriate focus of the CFWA is on member services. Booth (2004) argues that the strength of the co-operative sector is from within its membership base. He maintains that the CFWA members consider that the peak body is essentially a service delivery organisation, in which members pay a membership fee in exchange for a service. He argues that the primary objective of the CFWA is to service co-operative members to ensure that they are viable businesses that comply with legislative demands. Booth (2004) considers that in Western Australia, the commercial standards and auditing processes of co-operatives are weak and the CFWA should be supporting members to overcome this inadequacy. He also thinks that many Western Australian co-operatives are not really acting as co-operatives. Therefore, the role of the peak body is to provide both education about the uniqueness and the intangible benefits of being a co-operative in a competitive environment along with how to build a competitive advantage for the co-operative business. Booth argues that the area of greatest need in the Western Australian co-operative movement is in assisting commercially viable co-operatives to establish themselves and survive the first years of business. He believes that building the commercial strength of the members will create positive role models for potential co-operative proponents to imitate. Given his focus on the internal co-operative sector and member services, he does not really see the CFWA as a lobby group. However, he acknowledges that it is important to keep in touch

with politicians about co-operative issues that he claims to pursue in a subtle and low-key manner.

The restructure of the CFWA in 2004 ushered in a new strategic direction for the peak body. Collectively, the strategic plan's purpose and vision statements and key objectives reflect a greater external orientation. The differences in perspective about the appropriate orientation of a peak body such as the CFWA are clearly demonstrated in these two views. The Executive Officer presents a case for an internally focused peak body with a strong emphasis on member services. Following the restructure, the new Board of Directors (Council) sought to adopt a greater external focus of influencing key stakeholders, while also attending to a range of governance and member education issues within the peak body.

The CFWA case study demonstrates that managing this internal and external focus leads to tension: for example, focusing on external lobbying deflects the organisation away from the equally important task of servicing member needs. Conversely, an emphasis on member issues can cause a peak body to neglect the external advocacy role. Further, peak bodies can separate these activities to the extent that they are almost parallel functions rather than integrating and informing each other. It is difficult to determine if the individuals representing the different orientations in this case study are actually aware of the two concurrent strands to the functions of a peak body. Arising from this then is a potential inability to manage the tensions that arise within the peak body in trying to simultaneously achieve these two objectives or knowingly prioritising one over the other.

Value of the CFWA to its Membership - Self Interest versus Collective Interest

A membership density of about 70 per cent suggests that a significant number of registered co-operatives join the CFWA as they perceive some form of tangible and intangible benefit and value results from their membership. Member co-operatives can achieve value from CFWA membership through the peak body's ability to aggregate its membership into a single voice to external stakeholders that individual co-operatives would not be able to attain independently. Secondly, members realise benefits from the CFWA as it provides them with services such as collating, analysing and distributing information, and providing education about the co-operative movement and specific advice about the co-operative as a business

structure. These benefits are greater than the costs of the membership fees and sufficiently motivating for a co-operative to justify renewing the annual membership subscription.

The forthcoming co-operatives legislation and the implications of this legislation for existing co-operatives illustrate this collective benefit of belonging to a peak body for individual co-operative members. The legislation possibly has been the most significant issue confronting the Western Australian co-operative movement over the last decade. This matter has provided members with a strong motivator to renew their annual membership and support the CFWA as it negotiates the legislative changes on their collective behalf. The cumulative outcome of these CFWA activities conveys a value to individual co-operatives that is greater than the cost of its actual annual membership fees.

The term 'value' often arose in interview discussions about being a member of an agricultural co-operative or of the peak body (Interviewee 655, 2003; Interviewee 656, 2003; Interviewee 689, 2002); and came about in the context of how an agricultural co-operative could or could not create 'value' for a farm business, or how belonging to the peak body did or did not add value to the co-operative. The language in these interviews suggests that the empirical meaning of 'value' falls into two realms. The first is a neoliberal influenced rational choice understanding of value based around some material or economic benefit that satisfies a perceived self-interest. An alternative interpretation of value is to conceptualise it in the context of ideals, principles or philosophy. Accordingly, members of the CFWA determine if there is 'value' for their co-operative in joining the peak body on the basis of self-interested value or a more idealised concept of value linked to the co-operative principles.

Rational Choice and CFWA Membership

The empirical research suggests that the dominant interpretation of value for a co-operative to join the peak body is tied to a rational choice concept of value. Rational choice theory (see, for example, Hall & Taylor, 1996) implies that member co-operatives join the CFWA to achieve some form of instrumental benefit from the membership which is greater than the cost of annual membership. In evaluating this decision about the value of the CFWA membership, there is a tension for a co-operative to determine if it should act independently or join with other co-operatives

under the banner of the CFWA to achieve its goals (Booth, 2004). Members such as Co-operative Bulk Handling (CBH), United Farmers Co-operative Company (UFCC) and Western Australian Meat Marketing Co-operative (WAMMCO) are economically large and prominent co-operative business entities. Due to their size, they have sufficient influence as single organisations to behave independently on a number of fronts and do not need the collective power of a peak body to achieve their political or economic lobbying.

This research has identified an example of this behaviour. According to an interviewee who was at the time a government officer, the individual was approached by a representative of a large and influential agricultural co-operative and asked to effectively delay the implementation of the new co-operative legislation (Interviewee 658, 2003). The interviewee interpreted the approach as an attempt by this large co-operative to preserve some of the favourable conditions under the current legislation while it sought to change its co-operative structure to a company structure. Another interviewee disclosed that concurrently, as a member of the CFWA Board, that this same co-operative also influenced the CFWA to adopt a 'wait and see' approach to the impending legislation. Yet the CFWA is at the same time pressured by some of its member co-operatives and other interstate co-operative peak bodies to demonstrate that it is moving ahead on this issue. In contrast, smaller co-operatives lack this authority to influence external stakeholders in their own right and have little option but to rely on the peak body to collectively and without bias represent their interests in issues such as the new legislation.

Olson's theory of collective behaviour explores this type of relationship between the represented and representative (Olson, 1965). Olson's theory maintains that 'unless the number of individuals is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests' (Olson, 1965, p 2; cited in Ostrom, 2000). Olson's theory suggests that self-interest motivates an individual's involvement in collective behaviour. A conflict of interest therefore exists between individual and collective behaviour. The reward in behaving

collectively is consequently the ability to achieve an individual's own self-interest.¹¹² Self-interested behaviour by a large member co-operative could be demonstrated by, for example, its ability to exert influence over the policies and strategies of the peak body in the direction of its own self-interested position (Interviewee 678, 2003). A large industry player can also use the peak body as a cover to conceal its own agenda (Interviewee 678, 2003). Membership of the peak body masks the power broker role of a large player as the peak body appears at arm's length from the large independent player in providing advice to government. The 'wait and see' response of the CFWA discussed earlier to introducing the new co-operatives legislation is a possible example of this phenomenon (Interviewee 678, 2003).

Olson argues that it is not rational for an individual to participate in collective action if that good is available to everyone. Hence, that individual would seek to free ride on the collective action of others (Olson 1965). Free-riding occurs when a member is able to gain the benefit of collective action without contributing to its availability (Cook, 1995; Kaul, Conceicao, Le Goulven, & Mendoza, 2003). Co-operative peak bodies in other Australian States have observed 'free rider' behaviour. Some co-operatives have elected not to join their peak body yet paradoxically sought to access peak body information from other co-operatives that are members (Booth, 2004).¹¹³ Although a 'free rider' attitude indicates that the peak body offers some value or benefit to non-member co-operatives, as demonstrated by non-members seeking to access peak body information via a member co-operative, this value is insufficient to entice the non-member co-operative to pay a membership fee. This behaviour is consistent with Olson's argument that individuals will not behave collectively by joining a group, such as a peak body, out of a sense of a collective ideal like a co-operative philosophy, but to achieve an identified and rationally determined self interest. This suggests that a co-operative movement peak body

112 The application of Olson's theory to a peak body is paradoxical as the member of the peak body is also a collective organisation as a co-operative. Therefore, a peak body such as the CFWA is a collection of collectively based organisations, while Olson is referring to an individual joining a collective action. However, when a co-operative joins the peak body, Olson's theory gives some insight as it seems that the co-operative can adopt the attitudes that Olson attributes to the individual when evaluating whether to join the peak body.

113 Additionally, the trend of 'free rider' identified in some other Australian State co-operative peak bodies undermines the financial viability of the co-operative peak body due to diminished membership fees. However, the more subtle issue is that as the membership density is diminished, it potentially destabilises the peak body's authority to assume this role in the eyes of Government, the main actor which the peak body seeks to influence.

therefore needs to identify other incentives or motivations beyond the 'logic of co-operativeness' to entice co-operatives to join the peak body. These incentives need to be based around the ability of the peak body to satisfy the attainment of the potential member co-operative's self-interest.

While Olson's theory of collective behaviour can provide some insight for co-operative sector peak bodies, Ostrom (2000, p 2) states that, in relation to Olson's theory, a 'substantial gap exists between the theoretical prediction that self-interested individuals will have extreme difficulty in coordinating collective action and the reality that such co-operative behaviour is widespread, although far from inevitable'. Ostrom (2002) suggests that the world comprises many types of individuals, some of whom are more disposed than others to initiate mutual activities to gain the benefits of collective action. Therefore, despite Olson's theory, a large co-operative can belong to the peak body for reasons other than self-interest.

Co-operative Values and CFWA Membership

The work of Sandford (1955) and Smith (1984) suggest that, rather than self interest, the relationship between Westralian Farmers Co-operative and the CFWA was based on shared co-operative values and an altruistic commitment to the Western Australian co-operative movement. Booth (2004) also comments on the recent goodwill of Wesfarmers in donating a modest sum of money to the CFWA, even though it was under no obligation to do so and had converted to a corporation some 15 years earlier. Given that Westralian Farmers Co-operative was one of the largest co-operatives in Western Australia, and there are several accounts of its commitment to co-operative values, the size of the member co-operative is not an indicator of its propensity to behave in a self-interested manner. Simply because a co-operative is large does not mean that it will inevitably adopt values of self-interest in determining peak body membership.

Co-operatives may elect to join their peak body because of their commitment to the co-operative principles and the co-operative movement, regardless of membership numbers, economic turnover, and ability to influence external actors in their own right. Institutional sociological theory, drawing on the work of Selznick, enables an organic analysis of an organisation (Perrow, 1986). An insight from this approach is that an organisation can, over time, become steeped with values that go beyond the specific operational tasks of the organisation. A sociological perspective

enables the CFWA to be reconceptualised as an institution charged by the founding co-operative fathers with the responsibility of ensuring the transmission over time of practices and attitudes found in the 'co-operative logic' and co-operative values. The ability of the CFWA to transmit the co-operative principles from one generation to the next within the co-operative movement, individual co-operative members and the wider society becomes a useful 'benchmark' of its viability as a peak body. Viewing the CFWA in this context provides an alternative approach to analysing its activities from that of rationale choice and self-interest or in the dual internal and external focus contained in the definitions of a peak body.

Sociological theory also enables co-operatives to be understood as a culturally constructed form of organisation shaped by 19th century economic and social conditions following the Industrial Revolution. The successful transplanting of the co-operative business structure to Australia and the agricultural industry at the beginning of the 20th century demonstrates the compatibility of the co-operative model with the economic and social conditions of that time. In the subsequent Keynesian period, the co-operative business model was also found to be well suited to the social and economic views of that period. The connection between the values of the co-operative business model with the external political and economic systems is demonstrated by the sustained economic viability of the co-operative business structure and its peak body in Western Australia over the next five to seven decades. The peak body, established to represent the co-operative sector, absorbed and reflected back to the co-operative movement this time bound understanding of co-operative logic and assumed responsibility of ensuring the diffusion of this logic to the next generation, political decision makers and the wider community. The peak body, in perpetuating these values, can therefore be viewed by external and internal stakeholders as a legitimate organisation representing the co-operative movement. While this compatibility between the external political and socio-economic environment and the values embedded in the co-operative philosophy continued, all facets were harmonised and the CFWA as the peak body was able to replicate these values through time.

When there is a positive relationship between the values of the co-operative movement peak body and the wider society, members see the value in joining the peak body and retaining membership. Consequently, the co-operative movement

peak body is able to perpetuate itself over time. According to this theoretical line of reasoning, the ability to sustain this values based approach to membership of the CFWA is dependent on how much these values are also reflected in the broader society (Perrow, 1986).¹¹⁴ The mismatch identified in Chapter Three between the values characterised by neoliberalism, and those of the co-operative principles and represented by institutions such as the CFWA and the co-operative structure, partly explains both the small number of co-operatives in Western Australia and the challenges facing the present day CFWA as the peak body. While the concept of value embodied in co-operative principles or other non-material benefit captures the imagination of some present day co-operative member actors, on balance it does not seem to be a strong motivator for a co-operative to join the peak body. The lack of understanding of the co-operative values by external stakeholders of influence, as well as some of its member co-operatives, was a significant source of frustration for the former the CFWA Executive Officer (Booth, 2004). This suggests that the CFWA has been curtailed in its role as the institution transmitting over time the co-operative values to the co-operative movement and the wider society.

The introduction of new co-operative legislation will test the capacity of the peak body to transmit co-operative values to the wider community. The new legislation enables the incorporation of a new category of co-operative entities, that is, non-trading co-operatives. Historically, CFWA members were only commercially focused co-operative businesses and this new category of co-operative membership will bring a change to the deeply rooted focus on for-profit co-operatives. The CFWA will need to develop a values base that incorporates the aspirations of non-profit co-operatives. Additionally, it will need to build a skills base to advise on non-profit co-operatives, establish the networks to interact with this sector and institute democratic election processes to ensure appropriate non-profit co-operative representation on the Board of Directors.

The impact of new legislation on other Australian co-operative movement peak bodies is instructive for the CFWA. The introduction of the new legislation suggests that, in addition to value based on self-interest or co-operatives principles,

114 Sociological theory also suggests that ongoing membership renewal of the CFWA may be interpreted as a form of organisational inertia (Perrow, 1986), whereby members continue their membership due to established organisational patterns rather than a strictly rational evaluation of accrued benefits of the membership.

membership value is also linked to major topical co-operative movement issues. The CFWA has demonstrable value for its co-operative membership in a period of significant change that has a direct impact on member co-operatives, such as the introduction of new co-operative legislation. The CFWA, to some extent, recognises this phenomenon, as it believes it has the attention of the membership at the moment as a result of negotiations with the Western Australian government about the proposed new co-operative legislation (Interviewee 797, 2004). However, the experience of co-operative movement peak bodies in other Australian States suggests that once the new legislation has been embedded and member co-operatives are familiar with its implications, the member need for the peak body can diminish until a new topical or contentious issue arises.

The preceding analysis suggests that, in the current climate, membership of the CFWA can best be explained by rational choice theory. That is, the peak body is able to efficiently deliver material value to its membership, thus satisfying some form of self-interest within individual co-operative member organisations. However, the research has demonstrated that a commitment to co-operative values among individuals associated with member co-operatives remains a motivator for membership of the CFWA. Lastly, recognition of the CFWA's ability to address topical issues on behalf of member co-operatives can also motivate membership, but this is dependent on the nature of the issue.

Member Education

Several commentators have noted that the lack of member education, one of the co-operative principles, is a reason for low member commitment to the co-operative values. Both the International Co-operative Alliance (1999) and the International Labour Office (2001) emphasise the importance of member education. Many actors deeply connected to the Australian co-operative movement view member education as critical to ensure member loyalty, develop an understanding of matters confronting the co-operative movement, mobilise members around public policy issues, and importantly appreciate how co-operative values can contribute to competitive advantage in a commercial sense.

The Victorian Co-operative Federation is particularly concerned about this issue (Griffiths, 2004; Interviewee 996, 2004) and has sought to develop Australian

specific education and professional development courses for co-operative Boards, staff and members. The CFWA Board of Directors has recognised the importance of member education and has focused on co-operative education in its strategic plan (Co-operative Federation of Western Australia, 2003b) and the statement of services provided by the peak body (Co-operative Federation of Western Australia, 2004a). As part of its restructuring in 2004, the CFWA established a Membership Committee with a particular focus on member education (Co-operative Federation of Western Australia, 2003b). The annual conference continues to be a main source of membership education about topical co-operative movement issues.

Despite concerted efforts to stimulate greater interest in education issues by forming dedicated subcommittees for co-operative member Chairs and CEOs, it appears that these strategies have been difficult to implement. The CFWA is changing its focus on co-operative education by seeking to introduce courses or curriculum on co-operatives at tertiary and secondary education institutions (Interviewee 797, 2004). The change in strategy away from education directed at member co-operatives to a long-term strategy of seeking to introduce new curriculum in schools and universities reflects the difficulties facing the CFWA as a peak body in the area of co-operative education.

Explaining Lack of Co-operative Member Engagement with Peak Body Matters

A source of frustration for the former CFWA Executive Officer was a difficulty in encouraging members to actively participate in the affairs of the peak body. A Board Director (Interviewee 935, 2004) of a rural based retail co-operative that is a member of the CFWA, provided a possible explanation for this seeming lack of commitment. He commented that member co-operatives are often inwardly focused on their own specific co-operative issues. He added that it is difficult to find volunteer co-operative Board members within the local community and encourage them to focus properly on their legislative responsibilities as Directors of their own co-operative. As a result, member co-operatives may not have the energy or desire to look at the broader Western Australian co-operative movement issues addressed by the peak body (Interviewee 935, 2004). Therefore, understanding the wider 'political' issues associated with the peak body and the co-operative movement and

encouraging volunteer Board members to take on Director duties at the peak body can be very onerous for small member co-operatives.

This interviewee's comments suggest that, as some of its members have to be inwardly focused on their own business survival, the CFWA pursues issues that are not overly relevant for some members, particularly smaller regionally located co-operatives. As a consequence, the CFWA can inadvertently become detached from segments of its membership base. He also stated that the big agricultural co-operative members of the CFWA, which he believed were now essentially corporate entities except in legislation or name, did not care about smaller co-operatives or the viability of the wider co-operative movement (Interviewee 935, 2004).

His views highlight a paradox. Smaller co-operatives are tightly stretched in their own human and financial resources, while the larger co-operatives have the organisational capacity to provide the human resources to undertake Board of Director functions at the CFWA. Consequently, smaller regionally based co-operatives become further disenfranchised from the peak body, as the Board of Directors, predominantly from larger co-operatives, do not have the ability to empathise with issues confronting smaller member co-operatives. The difficulty with this situation is that, without the support of all its members, the peak body risks becoming ineffectual in its ability to represent the diversity of the entire co-operative movement and promote an environment that encourages a positive public policy environment for the co-operative movement, including small co-operatives. Further, as highlighted earlier, large co-operatives have the capacity to influence external actors independently of the peak body and do not need to rely on the collective voice of the peak body. However, smaller co-operatives are very reliant on the aggregated collective voice of the peak body to represent their interests to external stakeholders. The prevalence of representatives from larger co-operatives on the CFWA Council also raises other issues.

Board of Directors and the Agent

The principal-agent relationship can provide some insight to the relationship between the Board of Directors and the individual appointed to carry out the Board's

directions.¹¹⁵ Mathews (1999) explains that the principal-agent relationship is established when one actor - the agent - agrees to comply with the wishes of and represent the principal, who in turn agrees to provide the agent with a specified reward, usually a salary. According to this theory, the CFWA Board of Directors assume the role of principal and appoint the Executive Officer¹¹⁶ as an agent to act on their behalf, with both parties entering into a form of 'contract'. Consistent with economic theory, the principal-agent relationship assumes that individuals by nature pursue their own self-interest and are opportunistic. As the agent pursues his or her self-interest, the interests of the principal and the agent can diverge and cause friction as each has imperfect knowledge and information about the motives and interests of the other. According to the theory, agents can express their self interest and opportunistic behaviour by shirking, under-performance, theft and collusion (Mathews, 1999; Perrow, 1986). Principals can theoretically fail to perform their part of the agreement of ensuring that the agent is fairly compensated (Perrow, 1986). The theory argues that the way to resolve this conflict is for the principal to enhance the quality of the contract and monitor the behaviour of the agent against the contract.

A current Board Director expressed concern that, prior to his appointment to the Board, the previous Board of Directors had loosely guided the CFWA. As a consequence, much of the decision making and priority setting had been initiated by the Executive Officer (Interviewee 649, 2003). The Director acknowledged that the Executive Officer had assumed this role as a result of a governance vacuum created by an inactive Board. However, he thought the situation between the existing Board and Executive Officer had become 'too cosy' and that the CFWA needed some reinvigorating. The views of the CFWA Director intuitively correspond with the principal-agent theory. Implicit in his interpretation of the motives of the Executive Officer is a belief that the Executive Officer had created a self-serving niche for himself and that he had taken advantage of a compliant and passive Board of Directors. The Director, as principal, sought to resolve this by implementing a range of contracts such as an employment contract and a duty statement to monitor the

115 The principal-agent theory is also applied in Chapter Eight to understand the relationship between the United Farmers Co-operative Company Board of Directors and the executive management.

116 This discussion refers to the position of the former Executive Officer as agent. The agent at the time of writing is the Secretary of Peter Wells and Associates, Pty Ltd.

activities and behaviour of the Executive Officer (Interviewee 649, 2003). While the views of the CFWA Director reflect principal-agent theory, they are not consistent with co-operative logic (Craig, 1993) or as a guardian of the peak body and transmitter of co-operative values to subsequent generations of the co-operative movement.

Sociological institutional theory provides an alternative lens through which to view human behaviour. It contends that an individual's world view will be shaped by his or her interactions with institutions, particularly the values base of these institutions, and that this will influence subsequent behaviour. This perspective enables the Executive Officer's behaviour in filling a vacuum created by a disengaged Board of Directors to be interpreted as an effort to ensure that the co-operative movement continued to have a functioning peak body to convey the co-operative logic to members and potential members. Therefore, contrary to principal-agent theory, this theoretical approach would suggest that the Executive Officer was not behaving opportunistically. Rather, his interaction with co-operative businesses and the wider co-operative movement had shaped his world view and values. Therefore, the Executive Officer, as agent, was not acting from self-interest and guile as predicted by principal-agent theory, but from a genuine concern to ensure that the CFWA continued to function and deliver a service to its membership in the face of Board apathy and possible lack of commitment to the co-operative principles.

Board of Directors - Balancing the Mix of Skills

The relationship between the CFWA Board of Directors and the agents it contracts to act on its behalf raises another issue of interest. Of the eight co-operatives elected to the Council, six of the representatives from these elected co-operatives are senior management employees of their respective co-operatives. This is in marked contrast to the make-up of the CFWA Board of Directors in the 1950s. Chapter Four reveals that only one employee of a co-operative was permitted to sit on the CFWA Board of Directors, with the other Director positions occupied by individuals who were members of co-operatives (Sandford, 1955).

Booth (2004) argues that a mix of members and employees of co-operatives on the CFWA Board of Directors is desirable as it provides a balance of skills in guiding the peak body across the breadth of co-operative sector issues.

Representatives of other co-operative movement peak bodies also view this combination of member and employee Directors on a peak body Board as appropriate (Interviewee 945, 2003; Interviewee 996, 2004). Managers of co-operatives, as peak body Directors, can bring strength to the peak body in their sound administrative and management skills (Interviewee 945, 2003). Additionally, they often have greater time to read documents and analyse policy issues (Interviewee 996, 2004). To complement these skills, Directors involved as members in their own co-operative bring a broad perspective on the value of the co-operative structure in their industry and a strong user and owner perspective (Interviewee 945, 2003). Peak body Directors who are members of their own co-operatives can also act as a practical and commonsense brake on peak body Directors with management backgrounds and ensure that the peak body remains oriented towards co-operative principles (Interviewee 996, 2004).

The issue is to ensure the appropriate mix of Board member skills and attitudes on the CFWA Board of Directors. The principal-agent relationship can provide insight into the different roles within the peak body. CEOs, in their employing co-operative, assume the role of agents. However, as Board members of the peak body, they are required to undertake the role of principal rather than retain the attitudes and perspectives attributed by the theory to them as agents in their employed position. Consequently, the question to be considered is whether the CEOs can adopt the appropriate mindsets to switch between the different roles of principal and agent.

Munro (2003), in accord with contemporary organisational and management theory, argues that the CFWA Board are the policy setters for the co-operative movement, while CEOs are the implementers of these policies. This implies, as per principal-agent theory, that managers are essentially technical day-to-day actors undertaking functional and managerial activities, while the Board performs the broader visionary policy activities. Several of the members of the CFWA Board of Directors are employed as managers of their respective co-operatives. Managers of co-operatives, as employees on a salary, do not necessarily bring to the role of CFWA Director the same perspectives as those individuals who are members of co-operatives (Interviewee 996, 2004). Directors who have been involved in the formation or growth of their own co-operatives, and have an interest in its survival

and the wider political economy in which it functions, can bring to the role of Director a broader perspective than a co-operative employee (Interviewee 996, 2004). Directors who are members of a co-operative have a strong and vested interest in ensuring that the peak body has a role representing co-operatives as a business model and influencing a positive public policy environment for co-operatives (Interviewee 996, 2004).

In contrast, there is potential for a Board, dominated by managers of co-operatives, to adopt a managerialist perspective and focus on issues that ordinarily fall into the domain of the manager - the agent - of the peak body. If professional managers of co-operatives fail to understand co-operative logic and assume that the co-operative behaves according to the logic of a 'for-profit' business, conflict with the inherent nature of the co-operative values will inevitably arise (Craig, 1993). This will influence the direction of the CFWA due to the different perspectives that Directors who are also managers of co-operatives bring to the understanding of a co-operative and a co-operative peak body. Therefore, a Board of Directors dominated by the CEOs of member co-operatives may, over time, change the values orientation of the peak body (Interviewee 996, 2004).

Lastly, the articulate professionalism of Directors who are career managers can be overwhelming for co-operative member Directors (Interviewee 996, 2004), who in their own careers may be self-employed farmers or taxicab owners. In other words, career managers can overshadow a Board containing only a few Directors who are also co-operative members. It is difficult for co-operative member Directors to counter this power imbalance in the mix of Directors and ensure the peak body remains true to its charter (Interviewee 996, 2004).

Conclusion

The CFWA journey from its registration as an association in 1919 representing the interests of the Western Australian co-operative movement to the present has been a long and winding one. This organisation has functioned continuously for nearly eight decades, a significant achievement in itself. Throughout the majority of this time, the CFWA and the Western Australian co-operative movement, particularly in the agricultural co-operative sector, operated in a sympathetic and supportive political, social and economic environment. The

longevity of the CFWA suggests that it evolved into an institution with its own distinctive character and was valued for itself as much as for the technical functions it performed on behalf of its membership. However, in recent years, the present day CFWA has had limited success embodying co-operative values and transmitting these values to subsequent generations, achieving these aims within the Western Australian co-operative movement and the broader community. The chapter concluded that the CFWA is highly vulnerable to internal and external issues influencing the Western Australian co-operative movement overall.

The late 20th century has produced different cultural interpretations of the role of the State and the market based around the concepts of neoclassical economic theory. This analysis of the CFWA demonstrated the effect of the contemporary Australian economic and political context on the peak body. The dominance of neoliberal discourse has essentially displaced the agricultural co-operative structure and its institutional support structures such as the CFWA from public debate. In this political and economic context, it is difficult for the CFWA to engage in public discussions about the co-operative movement or represent the interests of its membership to external stakeholders. Despite a desire to promote the co-operative structure positively to a range of stakeholders, the co-operative movement peak body is manoeuvred into adopting a defensive approach to dispel misconceptions about the co-operative structure held by many in government agencies, the business community, the media, and influential positions of leadership. Time will tell if the peak body can continue to perpetuate knowledge of the co-operative values to its membership, the wider community and political decision makers during a period when the external environment is not particularly receptive to these values.

CHAPTER SIX

Public Policy, Statutory Marketing Authorities and Agricultural Co-operatives

Introduction

This chapter reviews the interface between State and Commonwealth governments and the agricultural co-operative sector by analysing two related matters. The chapter firstly examines the contemporary public policy framework for agricultural co-operatives in a period of agricultural industry deregulation. The second part of the chapter explores a specific public policy issue, the dismantling of Statutory Marketing Authorities (SMAs), and the connection between SMAs and agricultural co-operatives. The chapter revisits some of the neoliberal concepts raised in Chapter Three, extending the analysis to the repercussions of these notions on Departments of Agriculture, SMAs and the possible development of a revamped public policy environment for agricultural co-operatives.

Public Policy

Public policy has many definitions, though Gerston (2002, p 3) states that, at a minimum, it is the ‘combination of basic decisions, commitments, and actions made by those who hold or affect government decisions’. The United States *Capper-Volstead Act 1922* (Volkin, 1995) is an archetype of agricultural co-operative public policy enacted in the United States in the third decade of the 20th century. Via this legislation, agricultural co-operatives were, and continue to be, exempt from anti-trust laws in recognition of the co-operative structure’s particular ability to address economic disadvantage for farmers.¹¹⁷ While Australia did not emulate this anti-trust strategy, two examples of legislation with specific links to the agricultural co-operative suggest that historically, Australia provided a positive public policy

¹¹⁷ Anti-trust laws are similar to Australian laws dealing with anti-competitive behaviour.

environment to support agricultural co-operatives. Firstly, sections 117, 118, 119 and 120 of the Commonwealth *Income Tax Assessment 1936* were specifically incorporated to provide taxation concessions for agricultural co-operatives, illustrating an early example of public policy for the agricultural co-operative structure.¹¹⁸

The second example of evidence from the first half of the 20th century of a constructive public policy environment for the co-operative structure is that most Australian States promulgated co-operative legislation that recognised the co-operative business structure as a separate legal entity.¹¹⁹ These examples of a favourable public policy environment in the first half of the 20th century signal recognition by Australian State and Commonwealth governments of the difficult economic situation confronting farmers and threatening the viability of the fledgling agricultural industry. The capacity of the agricultural co-operative structure to resolve market failure, particularly its countervailing ability and the provision of goods and services the market was unwilling or unable to provide, justified a public policy framework for the agricultural co-operative structure. Policy makers developed legislative mechanisms to facilitate the development and financial viability of agricultural co-operatives. This form of public policy specifically for agricultural co-operatives on behalf of State and Commonwealth governments therefore contributed to the development of the emergent agricultural industry to the benefit of Australia overall.

Public policy for agricultural co-operatives was reinvigorated in the early 1990s to update, via State Departments of Consumer Affairs and State Co-operative Federations, co-operative legislation.¹²⁰ A significant feature of the new co-operatives legislation is the incorporation of the co-operative principles based on the 1995 ICA Statement on the Co-operative Identity. Reinforcing the centrality of the co-operative principles in the updated legislation can be interpreted as a significant

118 An attempt in the Commonwealth Coalition Government's 1996 Budget Proposal to remove Section 120(1)(c) of the Income Tax Assessment Act 1936 survived an Opposition-controlled Senate with the support of Labor, the Democrats, the Greens and two Independents (Greenwood, 1996b). The ability of other political parties to prevent the Government's efforts in this area indicate a residual positive public policy environment for agricultural co-operatives, as it demonstrates that agricultural co-operative advocates can rally political support for their cause when the structure is under some form of threat. The issue has not been revisited by the Howard Coalition government and the concessions still remain in the Act.

119 Victoria introduced specific legislation for co-operatives in the 1950s, the *Co-operation Act 1953*.

120 Appendix Two reviews the development of State based co-operative legislation.

public policy statement about co-operatives. Parliamentary debates during the late 1990s from various Australian States on the updated co-operative legislation were invariably supportive of the co-operative sector and the value of dedicated co-operative legislation, regardless of which party was in government (see, for example, New South Wales, 1992; Victoria, 1996). The ability of the co-operative sectors within each Australian State to stimulate government support for updated co-operative legislation in the closing years of the 20th century is a noteworthy and contemporary public policy statement about co-operatives. However, despite a decade of negotiations on new co-operatives legislation, Western Australia continues to operate under the *Companies (Co-operative) Act 1943*. No new legislation has appeared to date, and the extended delay in introducing this legislation in Western Australia can be interpreted as reflecting the low priority within the Western Australian government of the co-operative movement in a public policy sense.

Notwithstanding the taxation concessions in the Commonwealth *Income Tax Assessment 1936* and the updating of legislation for co-operatives, a deeper analysis of the co-operative movement public policy environment in present day Australia reveals a comparatively unresponsive state of affairs for agricultural co-operatives. Lyons (2001a) correctly argues that government interaction with the co-operative movement is characterised by a high degree of ambivalence. Although remnants of agricultural co-operative public policy linger into the 21st century in the form of co-operative legislation, they mask an ambiguity about the agricultural co-operative structure among policy makers generally in Western Australia or Australia (Booth, 2004; Cronan, 2001; Interviewee 680, 2003; Interviewee 682, 2003; Munro, 2003). Nevertheless, the continued existence of State and Commonwealth legislation provides a solid platform from which to strengthen the argument for an overt and active form of public policy for agricultural co-operatives. Further, the historical rationale for a public policy position for agricultural co-operatives remains cogent and legitimises the role of present day government agencies to develop and implement public policy to stimulate and support co-operative development.

Weak Public Policy Position for the Agricultural Co-operative Structure

An inadequate contemporary public policy framework for Western Australian agricultural co-operatives has several implications for the agricultural industry.

Public policy silence on the agricultural co-operative diminishes the legitimacy and relevance of the co-operative structure in the contemporary agricultural industry and the wider agricultural supply chain. It is discriminatory as it covertly privileges the corporate business model over alternative business structures and permits stakeholders to overlook or devalue the potential benefits of the co-operative structure. It undermines stakeholder knowledge of the role of the agricultural co-operative in the broader community, and limits the transfer of information and awareness about the ability of the co-operative structure to subsequent generations of farmers and rural communities.

The contemporary Australian public policy position for agricultural co-operatives can be contrasted with that in the United States (Torgerson et al., 1997; United States Department of Agriculture, 2002) and to a lesser extent in Canada (Fulton, 2001). The United States, rhetorically at least, also makes use of neoliberal theory to organise its economy, yet its public policy position for agricultural co-operatives is explicit. In addition to legislative frameworks which confer taxation and anti-trust benefits to agricultural co-operatives, the United States provides significant institutional support for the agricultural co-operative structure (Fulton, 2001). United States government agencies at the Federal and State level, in agriculture and rural community economic development, along with other co-operative development organisations, often funded by the Federal United States Department of Agriculture (USDA), implement a range of strategies to develop and support agricultural co-operatives. This support is diverse, such as a network of co-operative development organisations that employ development officers to advise farmer groups about forming co-operatives, and the provision of seed funding for feasibility studies and business plans. Agricultural faculties within several universities provide extension to and undertake academic research about agricultural co-operatives to complement the activities of government agencies. This research is closely linked with the agricultural industry to maximise reciprocal skills and knowledge transfer between actors from both the agricultural industry and the tertiary sector. There is also a strong linkage between regional and rural development policy and the role of agricultural co-operatives in rural community economic development (Fulton, 2001).

The United States experience, mirrored to some extent by the Canadian approach, has an integrated and complementary set of public policies and strategies

to develop the co-operative structure. The synergy created by these intertwined elements of a cohesive agricultural co-operative public policy facilitates a virtuous cycle. To illustrate, other institutions orient themselves to supplement this public policy. Banking institutions are prepared to lend capital to co-operatives and the professional advisory services understand the co-operative structure and advise farmer groups from a strong knowledge base. Fulton (2001) argues that the institutional support offered via government agencies and other sectors is possibly the most significant factor in the United States agricultural co-operative development.¹²¹

In contrast, Australia and Western Australia do not have a similarly broad and integrated public policy framework supplemented by strong institutional supports and strategies to champion the agricultural co-operative structure. Unlike the United States, Canada and parts of Europe, Australia has invested very little in agricultural co-operative research (Cronan, 2003).¹²² Agricultural industry associations (Interviewee 655, 2003; Interviewee 656, 2003), other industry and business associations (Interviewee 688, 2001; Interviewee 689, 2002), the tertiary education sector and the professional bodies and banking sector (Interviewee 692, 2002; Interviewee 694, 2003; Interviewee 695, 2003; Interviewee 696, 2002) lack a basic knowledge of the co-operative structure or unintentionally perpetuate misconceptions about the model. The provision of publicly funded curriculum for co-operatives at secondary, technical or tertiary level is virtually non-existent (Cronan, 2003), and promotion of co-operatives as part of a comprehensive economic development framework is marginal if not absent. Public funding for the co-operative peak body, which essentially undertakes some functions on behalf of government, particularly in

121 Fulton's (2001) paper explores the New Generation Co-operative (NGC) phenomenon in the United States to explain why Canada has not experienced a similar explosion in NGC development. However, the conclusions he draws concerning the United States institutional support for NGCs applies to agricultural co-operatives generally and highlight the different public policy environment between the United States and Australia.

122 According to Cronan (2003) Australia in 2003 had two PhDs specialising in the co-operative movement, and two PhD students researching agricultural co-operatives, including the researcher of this thesis. The Australian Centre for Co-operative Research and Development (ACCORD) affiliated with Charles Sturt University and the University of Technology Sydney, conducted research into co-operatives. Cronan (2003) stated that government and the universities funded ACCORD, and that the centre did not receive any financial contribution from the co-operative movement. Funding constraints necessitated that ACCORD adopt a broader research focus into the 'social economy', which, it can be argued, diverted its attention away from dedicated co-operative research. ACCORD ceased operation in 2005.

advice on governance and regulatory responsibilities of co-operatives, is also marginal.

Despite this neglect of institutional support for the agricultural co-operative sector emanating in part from a lack of public policy, there are fine examples of *ad hoc* initiatives. The Western Australian Department of Agriculture has undertaken several initiatives over a decade or so that demonstrate a strong and sustained commitment to stimulating the agricultural co-operative sector.¹²³ Additionally, from time to time, the Department of Consumer and Employment Protection has provided small grants to the co-operative sector peak body to undertake specific tasks (Booth, 2004).¹²⁴ However, these informal approaches are highly dependent on the goodwill of individual government Ministers or influential public servants within these Departments. Hence, these initiatives are particularly vulnerable as the lack of an overall public policy for agricultural co-operatives prohibits these initiatives becoming more formally embedded within the organisation.

Consequently, the Western Australian agricultural co-operative sector has an under-developed and under-resourced institutional environment in both the public and private sectors to support the co-operative movement. An overall government policy statement on the value and contribution of co-operatives to the State's social and economic development does not exist and is one of the factors contributing to the generally weak co-operative movement in present day Western Australia.

Decline in the Former Public Policy Position for Agricultural Co-operatives

Despite the theoretical and empirical benefits of the agricultural co-operative structure identified in the earlier chapters, this knowledge and understanding is not robust among present day actors. Consequently, the agricultural co-operative structure has slipped into a very neutral and passive public policy twilight zone. A number of interrelated and multi-levelled factors partly explain this decline in agricultural co-operative public policy.

123 Some of these activities are discussed in a following section.

124 The Western Australian Department of Employment and Consumer Affairs has in the past given the peak body \$15,000 in some financial years to fund specific activities, such as consultation with co-operatives about the proposed legislation.

Chapter Three explored neoliberalism as the dominant paradigm driving Australian macro-level industry policy, including agricultural industry policy, over the last two to three decades (Pusey, 1991; Stilwell, 2000). The objective of these market-oriented reforms was to introduce greater competition into different industry sectors, including agriculture, and dismantle unnecessary regulation (Hilmer, 1993).

The 1995 National Competition Policy Agreement involved a review of all State and Commonwealth legislation to determine if any piece of legislation had an anti-competitive impact on Australian industry. This review included legislation for co-operatives and Statutory Marketing Authorities (SMAs), which share some features in common with co-operatives. From the perspective of National Competition Policy, co-operatives are interpreted under the *Trade Practices Act 1974*, the Commonwealth government's anti-competitive legislation, as agreements between competitors, that is between farmers, which may be potentially anti-competitive (Co-operative Federation of Victoria, 2002).

The International Labour Office (ILO) (2001) commented on the implications for the co-operative business model of this international trend by nation States towards market driven economies and the use of competition policy to facilitate free markets. The significant issue identified by the ILO was the potential conflict between competition legislation and the agricultural co-operative business structure. The ILO argues that agricultural co-operatives are a collection of individual farmers who assemble to achieve economies of scale or other business efficiencies in the agricultural supply chain that they would not be able to achieve as independent farm business entities. However, the ILO acknowledges that, from the perspective of competition policy, this form of co-operation can be mistakenly interpreted as collusion. The ILO recommends that government policy makers acquaint themselves with the fundamental distinction between a co-operative business venture and the anti-competitive practices of IOFs to understand that the co-operative model is not engaging in collusive behaviour.

This misinterpretation of the role of the agricultural co-operative confirms the difficulty facing advocates of the co-operative structure to develop a constructive public policy space within a neoliberal framework. Clearly, this misunderstanding about the role and function of the agricultural co-operative business structure is persistent. Submissions from the peak bodies of the co-operative movement in New

South Wales (Co-operative Federation of New South Wales, 2002) and Victoria (Co-operative Federation of Victoria, 2002) to the 2002 review of the Commonwealth *Trade Practices Act 1974*, expressed concern that the Act does not comprehend the intrinsic differences between the co-operative business structure and other forms of commercial structures. Furthermore, the submissions argued that, contrary to contemporary understanding, the co-operative business structure is a pro-competitive market mechanism that corrects market failure and therefore stimulates a competitive environment. Consequently, the submissions conclude that the *Trade Practices Act 1974* has an intrinsic and entrenched prejudice against the co-operative business structure that impedes the development of successful co-operative businesses.¹²⁵

However, recommendations emanating from the review offer some benefits for the co-operative structure. The Australian Competition and Consumer Commission (ACCC), which already had the ability to adjudicate on anti-competitive practices that would otherwise breach the *Trade Practices Act 1974* through a mechanism known as an authorisation process (Australian Competition and Consumer Commission, 2001), may develop a simpler process to enable farmers, as small business operators, to bargain collectively (Oczkowski, 2003). Despite this tentatively constructive outcome, the essential problem of a lack of understanding about the fundamental differences between the co-operative business structure and other business models in Commonwealth anti-competitive legislation, and the administrative and regulatory government bodies responsible for the carriage of this legislation, continues to plague the development of a public policy framework for the co-operative business structure.

This perpetual misconstruction by highly powerful and influential actors within these Commonwealth regulatory and administrative agencies about the unique function of the agricultural co-operative structure and its pro-competitive role in a market economy, is deeply entrenched. Further, the competition policy interpretation of the co-operative business structure filters through to other influential agencies. To illustrate this lack of understanding about the role of the co-operative structure, the Australian Stock Exchange, a public company, has sought to accommodate those

125 The *Capper-Volstead Act 1922* recognises the dilemma that agricultural co-operatives can be perceived as behaving collusively in anti-trust or anti-competitive legislation and overcomes this by quarantining, with certain qualifications, the agricultural co-operative from this type of legislation. The review of the *Trade Practices Act 1974* rejected submissions recommending that Australia adopt a similar piece of legislation for agricultural co-operatives.

agricultural co-operatives seeking to raise external funds by listing them in a specific category on the stock exchange. At one level, this appears to be a positive development in normalising agricultural co-operatives as simply one option among a suite of business structures. However, the Australian Stock Exchange interprets the co-operative structure as an immature structure that will inevitably transform into the IOF corporate structure (Australian Stock Exchange, 2001). Consequently, rather than being presented as a valid model in its own right, the co-operative structure is stereotyped by the Australian Stock Exchange as an oddity among business structures that will eventually evolve into the standard IOF.

In addition to the macro-level industry policy and the agricultural industry policy, another significant factor to explain the lack of an agricultural co-operative public policy is the manner in which neoliberalism invariably redefines the role of the State. The theory dictates that the private sector is able to provide services and goods more efficiently than the public sector, leading to the ethos of minimal and small government (Stilwell, 2000). Government delivered services, neoliberal theory argues, will lessen the well-being of society, as government provision of services tends to be bureaucratic, inefficient and stifles innovativeness (Stilwell, 2000). Neoliberalism maintains that governments cannot remedy market failures. Furthermore, the costs associated with leaving the market to resolve market failure will be lower than the costs incurred from government initiatives to address market failure. Under this model, the legitimate role of government agencies is pared back to facilitating a stable, free and competitive market to enable the private sector to assume the dominant role in an economy.

Marsh and Parnell (1998) catalogue the significant changes in the functions of State Departments of Agriculture, particularly in the context of agricultural extension programs,¹²⁶ as these organisations reposition themselves according to the neoliberal paradigm. As well as out-sourcing former government delivered services and employees to the private sector on the basis of private benefit, other strategies

126 Marsh and Pannell (1997; 1998) define agricultural extension very generally to encompass both public and private sector activities including technology transfer, education, attitude change, human resource development, and dissemination and collection of information. They also incorporate off-farm as well as on-farm players in agricultural industries in this definition. The breadth of this definition could include a public policy position on agricultural co-operatives and the strategies to endorse and stimulate the uptake of this alternative business structure as part of agricultural extension.

include decentralising a trimmed department¹²⁷ to the regions; implementing the 'Funder-Purchaser-Provider' model; developing industry partnership groups; and focusing on cost-recovery and cost-sharing. In addition to the influence of neoliberalism in the development of agricultural policy and the redefined role of State Departments of Agriculture, Marsh and Pannell (1998) also attribute the changing function of agricultural government agencies to other more pragmatic factors, such as increasing fiscal burdens on government and the waning significance of the agricultural industry in the Australian economy.

These competitive market driven policies alter the historical relationship between State and Commonwealth government Departments of Agriculture and farmers and significantly modify the traditional range of strategies available to Departments of Agriculture. Seeking to develop a public policy framework for agricultural co-operatives in this new paradigm is challenging as it is essentially contrary to open market policy strategies for government. Subsequent sections in this chapter explore in some detail the conflict confronting a Department of Agriculture in seeking to develop and implement an agricultural co-operative public policy in a neoliberal environment.

This overarching account of the influence of orthodox economic theory on the lack of an agricultural co-operative public policy framework is supplemented by other related explanations. Chapter Three identified several elements of neoliberalism that are incompatible with the philosophy underpinning the co-operative business structure. Briefly, the archetypal business structure consistent with orthodox economics is the IOF or corporate structure, which focuses on the pursuit of profit and the distribution of this profit to shareholders. In contrast, an agricultural co-operative is formed to pursue benefits or services for its members rather than a 'profit' from a commercial activity. Another element of the neoliberal doctrine is the concept of individualism, which suggests that individuals should pursue activities to maximise their personal welfare (Lawrence, 1987). The co-operative model is a collective, rather than individualistic, approach to economic activity (Fulton, 1995). Economic theory therefore has a difficulty in accommodating a concept such as 'co-

127 A trimmed or pared down Department refers to the reduced Full-time Equivalent (FTE) public servants within the Department of Agriculture, as staff are made redundant or relocated to undertake former Department functions that the Department has privatised.

operation' when one of the cornerstones of the theory is the pursuit of individual self-interest.

Another factor leading to the diminished public policy role for agricultural co-operatives is the perception of the co-operative structure as an outdated business model. A range of influential stakeholders, such as some professional advisors and agribusiness consultants, bankers and media representatives, often hold this view. The features of the co-operative model, such as its collective membership base as opposed to individualism, and its focus on services and benefits rather than profit, further reinforce the perceived oddity of this structure for this stakeholder sector trained in classical economic principles. This view is strengthened by the dominant discourse by commentators and many academics about the shortcomings of the agricultural co-operative structure. This commentary often focuses on the difficulties agricultural co-operatives encounter with capital raising, which allegedly do not occur with a company structure. The solution to capital raising challenges is supposedly found in converting the co-operative to a corporate structure, which in turn fortifies the dominance of the neoliberal paradigm. In summary, the lack of positive and informed understanding of the co-operative structure in the business and corporate world, reinforced by some elements of the media, combined with the deficit in professional training for stakeholders about the co-operative business model, along with the overriding ascendancy of the neoliberal paradigm, lead to a blindness about the economic value of a collective business structure in agriculture.

Lastly, the capacity of the present day Western Australian co-operative movement to develop a relationship with government to explain the benefits and significance of the co-operative model appears to be limited (Interviewee 682, 2003). According to Interviewee 682 (2003), very little information about the co-operative sector crosses the desks of Ministers of a number of departments, particularly when compared to other business sectors. Consequently, ministerial policy makers and government department officers have minimal understanding of the co-operative movement and the co-operative structure. As the co-operative movement does not or cannot present a cohesive agenda to the government, the result is unclear or mixed messages about what the sector is trying to achieve.

Despite a conducive public policy environment in the past to nurture the agricultural co-operative structure, contemporary public policy based on a

competitive market driven framework does not encourage the use of this business structure. Clearly, the development of an agricultural co-operative public policy in Western Australia will be very challenging. An agricultural co-operative public policy promoting the co-operative structure presents a quandary for policy makers as it potentially competes with central notions of orthodox economic theory and National Competition Policy. Additionally, agencies that administer or regulate Commonwealth legislation may be inclined to misinterpret the co-operative structure as a form of collusion (Co-operative Federation of Victoria, 2002). State and Commonwealth government public policy makers are unable to counter the efficacy of this interpretation as they have limited direct experience with or awareness of the benefits of the agricultural co-operative structure. Furthermore, their professional and classical economic training channels them into interpreting the model via the IOF prism. All these institutional elements contribute to the enervated state of the overall co-operative movement in Western Australia and Australia, and challenge the relevance of the co-operative business structure. Without an overt public policy framework for agricultural co-operatives supporting the peak bodies and successful agricultural co-operatives demonstrating the merits of the co-operative structure in a market economy, there is very little opportunity for these misconceptions to be corrected.

Public Policy Theory for Agricultural Co-operatives

The Commonwealth *Income Tax Assessment Act 1936* and the various State co-operative Acts to incorporate the co-operative structure are reminders that Australia had a public policy framework for agricultural co-operatives. The concept of ‘public good’ provides a rationale for the further development of a public policy framework for the agricultural co-operative model. Musgrave and Musgrave (2003, p ii) quote Adam Smith as first defining the nature and purpose of a ‘public good’.¹²⁸ According to Musgrave and Musgrave, Smith supported the free market but understood that it had some deficits. Smith observed the existence of certain products

which though they may be in the highest degree advantageous to a great society are, however, of such a nature that the profits could never repay the expenses to any individual or small number of

¹²⁸ This concept of ‘good’ in economic terminology refers to something that may be tradable and have some economic value, rather than understanding the term ‘good’ in a moral sense.

individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect. (A. Smith, 1994 [1776], cited in Musgrave and Musgrave, 2003, p ii)

Smith's concept of a public good can be defined as 'a good that, even if consumed by one person, is still available for consumption by others' (Begg, Fischer, & Dornbusch, 1997, p 48). The notion can be further understood by differentiating it from a 'private good'. A private good is can be defined as a 'good, if consumed by one person, cannot be consumed by another' (Begg et al., 1997, p 262). The consumption of private goods is restricted to those individuals who actually pay for them (Begg et al., 1997). Those individuals, in purchasing and consuming the good, also gain the benefit of consumption (Kaul et al., 2003).

The concept of public good contains two necessary features. Firstly, the idea of 'non-rivalry' embodied within a public good, in which the consumption by one individual of a good does not reduce the amount available for other people. Access to sunlight or fresh air epitomises this criterion to some extent. Secondly, the concept of 'non-excludability' conveys the idea that when the good is provided, no individual is excluded from the benefits, as the benefits are collective. Kaul, Conceicao, Le Goulven, & Mendoza, (2003) argue that a public good which possess these two qualities absolutely is 'pure'. Of interest to agricultural co-operatives, Kaul et al. (2003) adopt the term 'collective good' to differentiate 'pure' public goods from those that are applicable to a particular sub-set of society. An agricultural co-operative is clearly a public good that is restricted to a sector of society, that is farmers, and is therefore appropriately termed a 'collective good'. However, for reasons of clarity and simplicity, this analysis of agricultural co-operative public policy will continue to apply the term 'public good' rather than 'collective good'.

Clearly, the motivation for the provision of a public good is some form of market failure in the private sector. According to Musgrave and Musgrave (2003), Smith acknowledged that as the market fails to provide public goods, it is appropriate that government to do this. In a contemporary context, the term 'public' does not imply that its production is undertaken by a public sector, that is, by government, but relates to the consumption of the public good by the public (Kaul et al., 2003). Nevertheless, the peculiarities of a public good often result in a government connection to it in some way (Pannell, 2004). Further, public goods often are not

free. The sheer cost of providing them discourages the private sector from undertaking this function, resulting in government provision at some cost to the community.¹²⁹

Pannell (2004) further differentiates the understanding of 'public good', which has a precise economic meaning, from concepts of 'public benefit' and 'private benefit'. 'Public benefit' and 'private benefit' are terms that arose in interviews with public servants when discussing issues around the present and potential role of the Western Australian Department of Agriculture with the agricultural co-operative sector (Interviewee 679, 2002; Interviewee 680, 2003). Pannell (2004) also notes the popular use of these terms by government agencies and actors, but points out that there is a deficit in theoretical information on 'private benefit' and 'public benefit', although there is considerable literature on the theory of 'public good'. Pannell (2004) defines the concept of 'private benefit' as benefits which are generated for the private landholder, while 'public benefit' concerns benefits generated for a collective group of landholders. According to Pannell, the 'public/private benefit' concept is applied by government agencies as a rationale for funding activities that are considered to generate public benefits. However, government will not fund activities which result in 'private benefit' for individual farmers as there are assumed to be sufficient market based incentives for farmers to adopt the practice without additional government encouragement (Pannell, 2004). Pannell (2004) argues that the concept of public and private benefit is not derived from public good theory and is not linked to the concept of market failure. However, in the context of this thesis, both concepts clearly have an underlying neoliberal sentiment that rationalises when government should or should not be involved with the provision of a public good or a public benefit (Pannell, 2004).

129 However, a downside to the provision of a public good is the propensity for free-riding. As all individuals in a community share a benefit, it becomes a 'public good'. Free-riding occurs when an individual is able to gain the benefit without contributing to its availability (Kaul et al., 2003). Chapter Five discusses Olson's concept of collective action to explain the motivations for free riding. As the co-operative can be construed as a public good, consistent with any public good, there is an incentive for individuals to minimise their involvement in producing the public good, as it is accessible for all members, resulting in free riding (Cook, 1995; Fulton, 2001).

Public and Private Goods and the Western Australian Department of Agriculture

In the context of a neoliberal paradigm, the concept of public and private goods and benefits determines whether government or the private sector provides the good or benefit. In the process of deeming a good or benefit as public or private, the role and structure of government is inevitably redefined (Marsh & Pannell, 1997, p 8). The overall effect is the reorientation of government departments from direct delivery of many programs previously delivered by governments by shifting responsibility for delivery to the private sector. This also includes extension activities, such as agricultural co-operative initiatives.¹³⁰ Extension activities have shifted from being a public good provided by the Department of Agriculture to a private good delivered by the private sector. This is rationalised on the basis that the consumption of agricultural extension, such as enhanced business management skills or technical production skills, translates into a direct private benefit for the individual farmers who consume this good, through greater on-farm business efficiency or profitability. Therefore, it is appropriate for individual farmers to pay, on a user-pays or fee-for-service basis, for extension. Secondly, neoliberalism assumes that the State or government services tend to be inefficient and bureaucratic while the private sector is deemed to provide these services and goods in an innovative, efficient and profitable manner (Marsh & Pannell, 1998). Consequently, it is presupposed that private agricultural consultants are better placed than State Departments of Agriculture officers to deliver agricultural extension (Marsh & Pannell, 1998).

However, in the context of extension for agricultural co-operatives, it is clear that the market, represented by the private sector, has failed to provide appropriate advice to farmer groups wishing to explore the potential of an agricultural co-operative. The research has identified several examples of farmer groups being actively dissuaded by private professional advisors and agribusiness consultants from adopting the co-operative structure for their proposed venture (Booth, 2004; Interviewee 664, 2002; Interviewee 665, 2003).

¹³⁰ Marsh and Pannell's definition of 'extension' is described elsewhere in the chapter.

Department of Agriculture and Agricultural Co-operative Public Policy

A neoliberal interpretation of the role of the State also reinforces a narrow and one-dimensional interpretation about the agricultural co-operative structure. Rather than evaluating agricultural co-operatives from a neoliberal perspective, an agricultural co-operative public policy position requires a nuanced response from government that acknowledges the pro-competitive nature of the co-operative structure. Public good theory suggests that in market failure situations, government and government agencies have a legitimate function to provide public goods to ameliorate the market failure.

Agricultural co-operatives are able to address two forms of market failure and therefore justify the development of a public policy position for the agricultural co-operative. Firstly, a form of market failure in agricultural extension is arising, as the market is unable or unwilling to build the institutional support to deliver informed professional development and advice about the agricultural co-operative. Western Australia does not have one private sector consultant providing dedicated training, professional advice, or development services for individuals or groups of farmers seeking guidance on agricultural co-operatives,¹³¹ despite evidence of an existing market demand for these services. Additionally, due to the weak institutional environment surrounding the agricultural co-operative sector, including the co-operative movement peak body, other organisations such as industry or business associations do not feel any pressure to meet this need for advice and support for agricultural co-operative development. The outcome for farmer groups of this entrenched lack of institutional support for the agricultural co-operative model is the exclusion of the co-operative structure as an option in the suite of business structures for proposed farmer group initiatives. Given the documented theoretical and empirical public good features of the agricultural co-operative structure, the market failure in agricultural co-operative extension has potential economic disadvantages for the agricultural industry.

A second level of market failure is apparent, as the neoliberal interpretation of the agricultural co-operative structure devalues its capacity to perform a public good function within the wider agricultural supply chain. As stated above, neoliberal

131 The former Executive Officer of the CFWA indicated that he would undertake consultancy work in co-operative development and advice.

public policy interprets the co-operative structure as a form of collusion that is deemed as anti-competitive. However, an informed understanding of the co-operative structure reveals that it facilitates a competitive market by correcting market failures. Paradoxically, the lack of an agricultural co-operative public policy leads to a propensity for market failure in the agricultural industry. The difficult position of farmers in the agricultural supply chain identified in Chapter Three illustrates the depth of market failure in the agri-food industry. The development of agricultural co-operatives by farmers can, to some extent, address this market failure. The multi-tiered market failures arising from a lack of support for the agricultural co-operative structure at the agricultural industry level and in the institutional and extension spheres demand a public policy intervention by the Western Australian Department of Agriculture.

Arguments to Justify a Public Policy Framework for Agricultural Co-operatives

A key theme in the agricultural co-operative literature review in Chapter Two was the pro-competitive ability of the agricultural co-operative structure to correct various forms of market failure. Orthodox economic theory confirms that the agricultural co-operative structure is able to use economies of scale to countervail the power of monopolies or monopsonies in other links of the supply chain (Cobia, 1989). Agricultural co-operatives are also able to provide a good or service that the market was unable or unwilling to provide (Cobia, 1989). These elements of the agricultural co-operative structure were a significant factor in the early adoption of the model in the agricultural industry. Chapter Two argued that, in its contemporary role, the agricultural co-operative structure is able to rebalance market power disparities between different actors in the agricultural supply chain. This pro-competitive ability of the agricultural co-operative structure to even out the behavioural extremes of a free market economy demonstrates that the agricultural co-operative performs a public good for society in excess of its specific business activity.

From a sociological perspective, Chapter Two also demonstrated that agricultural co-operatives provide economic and social benefits to the industry and

rural communities, thereby performing another form of ‘public good’.¹³² Agricultural co-operatives facilitate the development of social capital, enable members to experience democracy within the co-operative, and strengthen active participation of members within their local community (Craig, 1993). Further, agricultural co-operatives are mutual self-help organisations (Craig, 1993), which is compatible with the neoliberal tenet that individuals help themselves solve their own problems. As a result of these public good characteristics of the agricultural co-operative structure, government itself does not have to intervene to achieve these outcomes.

The Department of Agriculture goal to develop the economic viability of the agricultural industry provides further justification for a public policy position for the agricultural co-operative model (Western Australian Department of Agriculture, n.d.). Interviewee 680 (2003) argued that the objective of the Department of Agriculture was to provide a benefit to multiple farm entities and the broader industry, rather than to a single farm unit. He maintained that agricultural co-operatives also provide benefits to multiple farm entities and by default to the broader industry, and as such represented a form of public benefit. While Interviewee 680 (2003) acknowledged that a corporate entity could also benefit multiple farm entities, the corporate structure does not have the intrinsic qualities of distributing surplus among members and providing service at cost, which contributes to the public benefit function of the agricultural co-operative structure.

Consequently, he argued, there is a high level of compatibility between the wider public benefits delivered by the Department and agricultural co-operatives. Due to this consistency in outcomes, he argued, it was appropriate for the Department to provide public policy support for the agricultural co-operative structure. Therefore, in supporting the co-operative structure to benefit the broader industry, the Department was also achieving its own objective of benefiting the broader industry (Interviewee 680, 2003). Additionally and importantly, Interviewee 680 (2003) considered that, as agricultural co-operatives have a net public benefit for the community and the industry, it was reasonable for the government to share the risk of fledgling agricultural co-operative start-ups by providing access to seed funding for activities such as feasibility studies or business plans.

132 While social outcomes are not part of the economic theory of public goods, the wider social benefits of agricultural co-operatives in rural communities exceeds the actual co-operative activities (Mooney & Gray, 2002).

Concurrently, Interviewee 680 (2003) argued that in developing the viability of the co-operative sector, the Department of Agriculture is also building a private benefit for individual farmers as agricultural co-operatives have well documented economic advantages in improving the efficiency and profitability of the farmer's individual farm enterprise. Therefore, he reasoned, a stronger agricultural co-operative sector leads to a stronger farm enterprise, which then becomes self-perpetuating. Interviewee 680 (2003) concluded that this end point of economically viable individual family farms, complemented by a viable co-operative sector, legitimised a public policy position for agricultural co-operatives by the Department of Agriculture. Paradoxically, Interviewee 680 (2003) added, an agricultural co-operative public policy framework can facilitate government objectives of economically profitable and efficient individual farm businesses and over time, the withdrawal of overt government involvement in this area, further rationalising a public policy framework to develop the agricultural co-operative sector.

In the opinion of Interviewee 680 (2003), several constructive side effects also result from a public policy position for agricultural co-operatives. Drafting a public policy framework and exploring the range of strategies within the Department to implement the policy results in a deeper awareness of the structure among policy makers. Further, a public policy framework for agricultural co-operatives stimulates professional advisors, the media, and industry and business associations to develop a more informed understanding of the model. A public policy framework for agricultural co-operatives ensures knowledge transfer about the benefits of the co-operative structure among present day and future farmers. A public policy framework legitimises the agricultural co-operative structure as a valid business structure, expanding the range of business model options for farmers as they seek to explore potential opportunities or shield themselves from the downsides of globalisation and industry restructuring. Lastly, an agricultural co-operative public policy positively influences gatekeepers and stimulates institutions to undertake a catalyst role in co-operative development and support.

Department of Agriculture Initiatives in Agricultural Co-operative Development

A neoliberal paradigm diminishes the role of a government agency while privileging the private market. While a strong theoretical element drives the rhetoric of government policy, in the context of agricultural co-operative activity within the Department of Agriculture, the actual behaviour of some staff within the Department indicates that they are more engaged with the agricultural co-operative structure than neoliberal theory would suggest. To some extent, these activities reflect the views of individual Department officers that there is a justifiable role for government in the agricultural co-operative sector. These individuals tend to be informed by New Institutional Economics (NIE), which arose in the 1920s as a separate theoretical response to the market failures emanating from the interpretations of liberalism and classical economics (Hall & Taylor, 1996). This branch of economic theory legitimises a position for institutions, including governments, in industry policy.

However, the dominant economic discourse in government agencies requires that arguments for a possible policy position for agricultural co-operatives be framed in neoliberal discourse to ensure its passage through the channels of government. It is a difficult and conflicting task to analyse an issue on the basis of one theory due to its explanatory capacity yet use the language of a competing theory to rationalise it in a public policy sense. However, agricultural co-operatives have always been pragmatic business structures. To ensure that the agricultural co-operative structure can perform its broader public good role of stimulating competition and correcting market failure in the agricultural supply chain, and contributing to the well-being of rural communities, this pragmatism must also enter into the debate on agricultural co-operative public policy.

The examples of *ad hoc* agricultural co-operative support and initiatives occurred under both the Western Australian Coalition and Labor Governments. The Department of Agriculture, in the last decade, has directed considerable public funds into developing industry knowledge of agricultural co-operatives. In the late 1990s, the Western Australian Department of Agriculture initiated several international study tours comprising agricultural industry actors, dedicated to exploring the agricultural co-operative structure, particularly the new phenomenon of the NGC structure (Booth, 2004; Interviewee 652, 2003; Interviewee 689, 2002; Interviewee

695, 2003).¹³³ The Department also sponsored lectures and seminars delivered in Western Australia by internationally renowned agricultural co-operative academics and proponents (Interviewee 689, 2002; Interviewee 694, 2003; Interviewee 695, 2003). Additionally, the Department provided seed funding for feasibility studies for potential co-operatives to evaluate business concepts (Interviewee 665, 2003; Interviewee 680, 2003). It directed significant public funds and officer support to the establishment of the Challenge Dairy Co-operative as part of an industry restructuring package negotiated for deregulating the Western Australian dairy industry (Booth, 2004; Interviewee 652, 2003; Interviewee 679, 2002; Interviewee 680, 2003). Further, the Western Australian Department of Agriculture has played a significant role in promoting the co-operative alternative to agricultural and allied industry sectors undergoing deregulation. Particularly in relation to the actual or potential dismantling of SMAs for the dairy, egg, potato and meat industries, the Department has been active in presenting the co-operative model as an alternative business model post deregulation. Department officers have also been involved in water deregulation, leading to the formation of farmer owned co-operatives managing the distribution of water rights.

The Department has also supported and funded research into agricultural co-operatives, such as assisting a staff member to undertake PhD research in the United States and contributing funds to Western Australian PhD research on agricultural co-operatives (Interviewee 680, 2003; Interviewee 681, 2001).¹³⁴ Departmental officers driving agricultural co-operative initiatives have also sought to integrate the agricultural co-operative structure into other programs and strategies within the Department (Interviewee 680, 2003; Plunkett & Kingwell, 2001; Western Australian Department of Agriculture, 2002b).

Perhaps the most significant example of Department of Agriculture activity has been the introduction in late 2004, after several years of persistent activity, of a new piece of specific Western Australian legislation for agricultural co-operatives, entitled *Co-operative Loans Act 2004*. This legislation enables Western Australian agricultural co-operatives to gain the benefits of S120 (1)(c) of the *Income Tax*

133 Appendix Three provides an overview of these study tours and seminars about the NGC model.

134 This thesis is the Western Australian research partially funded by the Department of Agriculture.

Assessment Act 1936.¹³⁵ Following Department information seminars about the new legislation, Interviewee 680 (2003) believed that there was a high level of latent interest from farmers about the co-operative business model.

The introduction of the new loans facility coincided with the evolution of some niche industry sectors, such as the olive industry, which were investigating the processing stage for the commodity. Interviewee 680 (2003) argued that the loans facility provided the agricultural industry with a concrete feature that positively differentiated the co-operative business structure from the corporate structure and therefore cemented the co-operative structure as a viable option for these niche industries (Interviewee 680, 2003). Lastly, Interviewee 680 (2003) suggested that the loans facility was also a benefit for agricultural co-operatives as co-operatives were renowned for poor governance systems, particularly management and financial control. The loans facility requires co-operatives to be 'profitable' to benefit from it and therefore imposes financial discipline on co-operatives, overcoming the reputation of poor financial control in co-operatives.¹³⁶

These *ad hoc* initiatives have arisen when individual public servants recognised the potential of the agricultural co-operative model to meet Departmental objectives of a viable agricultural industry, and therefore sought to stimulate the uptake of the structure. Apart from the *Co-operative Loans Act 2004*, which is institutionalised into Western Australian government policy, these agricultural co-operative initiatives are dependent on the goodwill of three or four individual actors spread throughout the Department of Agriculture. While this is highly admirable at one level, this *ad hoc* approach is too dependent on these few individuals. If these individuals left the Department, then the momentum they created within the Department to support the agricultural co-operative would no doubt dissipate. According to Interviewee 680 (2003), State Departments of Agriculture throughout Australia have a similar informal approach in which individual public servants drive the co-operative agenda, as agricultural co-operative strategies are not entrenched in

¹³⁵ Previously, the Western Australian government, unlike most other Australian State governments, had not introduced a mechanism to loan government funds with its associated taxation benefits to agricultural co-operatives under S120(1)(c) of the *Income Tax Assessment Act 1936*.

¹³⁶ Interviewee 680 (2003) indicated that in promoting the new legislation to the industry that farmer groups interested in pursuing the co-operative model had little understanding of the steps required to establish a co-operative, suggesting that a gap in provision of co-operative development services to the agricultural co-operative sector. The issue is which organisation should fill this gap in co-operative development - the peak body, the Department of Agriculture, or the private sector.

a policy position within the departments. He also thought that the Commonwealth Department of Agriculture had even less involvement in or connection with the co-operative model, with minimal evidence of efforts to facilitate its development (Interviewee 680, 2003).

Further, these individuals believe that the Department is best placed to undertake these developmental activities within the industry, given the fragile institutional support for agricultural co-operatives. This, they argue, is particularly so when other organisations that could or should undertake this public policy leadership role, such as the CFWA, are in a weak position (Interviewee 680, 2003). Consequently, these Department of Agriculture officers are mounting agricultural co-operative development strategies in a broader institutional and public policy vacuum that may drive the agricultural co-operative movement in inappropriate directions. A public policy position on agricultural co-operatives within the wider government and appropriate government departments, and importantly developed in conjunction with the peak body, is necessary to separate initiatives supporting agricultural co-operatives from the goodwill of individual public servants. This is necessary to institutionalise agricultural co-operative policy into the long-term fabric of government policy and service delivery.

Developing a Public Policy for Agricultural Co-operatives

The United Nations (1998) produced guidelines for member countries to assist in creating a supportive environment for the development of co-operatives. The guidelines are a valuable contribution to drafting a public policy framework for agricultural co-operatives, which can be contextualised to Western Australia's specific institutional environment.

The guidelines address issues related to the public recognition of the co-operative structure; the legal, judicial and administrative provisions for co-operatives; research, data collection and statistics on co-operatives; information and education about co-operatives; the provision of public funds for co-operatives and institutional arrangements for collaboration and partnership between the co-operative movement and government. Paraphrasing some key points of the guidelines:

- Government recognises and understands the uniqueness of the co-operative business structure, based on co-operative principles and values which are desirable and beneficial to society.
- Government is charged with creating a supporting and enabling environment for co-operatives and working in partnership with the co-operative movement.
- Government publicly acknowledges and promotes the role of co-operatives in the economy and society.
- Co-operative legislation incorporates and reinforces the co-operative principles. All other laws, judicial and administrative practices are consistent with co-operative legislation and principles. The co-operative movement via the peak body needs to monitor this and bring anomalies to attention of relevant government agencies.
- Government acknowledges the co-operative structure's self-regulatory nature and the autonomy of the co-operative movement. Government therefore should not be involved in the internal affairs of individual co-operatives or the co-operative movement. Government works in partnership with the co-operative movement, via the peak body, in the development of co-operative movement public policy, with formal procedures set up for consultation and collaboration between government and co-operative movement.
- A single government department should undertake the registration and regulatory functions. At the industry level, government agencies, such as the Department of Agriculture, should undertake development activities in consultation with the co-operative movement peak body. Government departments must avoid 'taking over' the development of the co-operative movement.
- Government funding to the co-operative movement or co-operative business should be the same as other funding arrangements between government and business sector.

- Government can have active role in undertaking and funding co-operative research, the results of which need to be disseminated to the co-operative movement.
- The co-operative business structure is mainstreamed and normalised by receiving the same level of public government support as any other form of business enterprise.
- Government has a role in facilitating knowledge and understanding of the co-operative movement and the co-operative business structure, especially in dismantling prejudices and misconceptions. (United Nations, 1998)

In Western Australia and Australia generally, agricultural co-operative public policy is strong in relation to legislative matters, evidenced by dedicated co-operative legislation in each Australian State that incorporates the co-operative principles and the taxation concessions within the *Income Tax Assessment Act 1936*. However, in other areas, public policy for agricultural co-operatives is clearly deficient. It is apparent that governments do not provide a supportive framework equal to that provided for other forms of business structures (International Co-operative Alliance, 1999). Western Australian support mechanisms for small business and companies far outweigh those available for the co-operative business structure, such as the Small Business Development Centre and the Business Enterprise Centres located in regional centres. Additionally the business sector is well supported by a range of industry associations, such as the Chambers of Commerce and Industry, which is able to exert considerable political influence over State and Commonwealth governments. However, the most debilitating factor for an agricultural co-operative public policy is the apparent ambivalence of government towards the co-operative sector, which in turn permits other actors of influence to dismiss its contribution and relevance to contemporary Australian agriculture.

Several interviewees commented positively on the agricultural co-operative public policy model illustrated by the Rural Business-Co-operative Service in the United States Department of Agriculture (USDA), which in turn was supported by a strong institutional framework (Booth, 2004; Interviewee 680, 2003; Madden, 2003b). Madden (2003b) commented enthusiastically about the USDA support for agricultural co-operatives and considered that it was a legitimate role for Australian

State and Commonwealth governments to fund a similar resource for the agricultural industry. However, based on his personal views of not relying on government,¹³⁷ he believed that rather than a government agency delivering such services, that it contributes to the activities of organisations such as the Co-operative Federations in each State to provide the level of co-operative sector support. Madden believed that such a strategy would stimulate the agricultural co-operative sector in Western Australia.

The Respective Roles of the Department of Agriculture and the CFWA

The United Nations guidelines (1998) and interviews confirm that a supportive government public policy is a key element in shaping the development and viability of co-operatives as a valid business structure in agriculture. The guidelines, however, indicate that the challenge for government is not to develop the co-operative sector itself, but to facilitate an environment to stimulate the autonomy of the co-operative sector with its own aims and philosophy. This position is consistent with the neoliberal role of government as the manager rather than deliverer of goods and services. Therefore, while the role of government is to provide a positive public policy environment for co-operatives, the driving force in implementing a public policy for co-operatives rests with the co-operative movement.

These guidelines indicate that the future role of government involves collaboration between the three levels of Australian government and with various significant actors in the private sector and the peak bodies representing the agricultural industry, the business sector, the co-operative movement and rural communities, which collectively influence the validity of the agricultural co-operative structure. This facilitator role entails political and managerial issues related to the sensitive design and implementation of politically acceptable strategies to enhance the viability of the agricultural co-operative sector, and the appropriate monitoring and evaluation of agricultural co-operative initiatives delivered under the concept of public good. The UN guidelines also emphasise the need for government to involve participatory decision making processes with the co-operative peak body

137 Chapter Seven expands on Madden's views of government involvement in agriculture.

and co-operative actors, which will enhance political support for public policy for agricultural co-operative sector strategies.

While the United Nations guidelines provide direction on the role of government in co-operative sector development, the long established co-operative movement peak bodies are also a resource to facilitate the development of agricultural co-operative public policy. To illustrate, the Canadian Co-operative Association takes a proactive role in the development of public policy for the co-operative sector. Its webpage, in relation to public policy, states:

If government policies, legislation, and regulation are to enable co-operatives to thrive, a national voice for co-operatives must be heard within the corridors of power. Our Government Affairs & Public Policy (GAPP) unit analyzes and influences federal government strategies, policies, legislation, and regulations to ensure that the needs of co-operatives are met. Communicating this information to CCA members is an important part of the unit's work. Each month GAP Update highlights key public policy developments and government relations that are of interest to the co-operative sector. The GAPP unit also works with members to develop positions and representations to shape government policy and programs, and facilitates opportunities for CCA and its members to partner with the federal government. (Canadian Co-operative Association, n.d.)

As outlined in Chapter Five, the co-operative movement peak body, CFWA, is under-resourced to perform a similar role of monitoring various government activities to determine possible impacts on the Western Australian co-operative sector. Additionally Chapter Five suggests that the peak body also lacks the necessary influence to encourage government to pursue a co-operative movement public policy framework. However, given the underlying compatibility of the objectives of the Department of Agriculture with those of the CFWA, the Department can help ameliorate this situation by initiating, in conjunction with the CFWA, a strategy to incorporate the agricultural co-operative business structure into Department activities in rural and regional Western Australia.

A challenge for the co-operative movement and its peak body is to recognise the influence of neoliberalism on political and economic contemporary macro-level public policy and how over time, these influences pervade the wider society. These notions diminish the basic values of the co-operative movement and consequently, the ability of the peak body to exert political and economic influence. The peak

body, in seeking to lobby for a public policy position favourable toward the Western Australian co-operative movement, needs to acknowledge and accept that neoliberalism is deeply entrenched internationally and nationally, and therefore develop strategies to facilitate the co-operative identity in this environment. This partly involves understanding these wider political and economic drivers, and the way that they are implemented in an institutional sense. This also incorporates an understanding that there are influential opinion leaders who view the co-operative structure as an inappropriate business structure in a market economy.

Despite this, the CFWA is perhaps at a fortunate time in history. After several decades of allowing the market to organise the economy, a recognition by government of the role of civil society structures, such as the Western Australian co-operative movement peak body, is emerging (Lyons, 1996). According to Lyons, civil society sits between the State and the market economy and is a 'sphere of freedom where people can co-operate and organise to pursue their interests as citizens free of the state or the market' (Lyons, 1996, p 8). Civil society organisations can focus on non-market aspects of society and undertake activities to ameliorate the excesses of a free market. Civil society organisations can also advise and influence governments (Lyons, 1996). These types of organisations can develop national and international networks, and form partnerships with government that can lead to fresh perspectives in developing and implement public policy (Lyons, 1996). The CFWA can sit in this civil society space and in partnership with government, to facilitate public policy development on behalf of the co-operative movement.

Lastly, the peak body must take the lead role in this area as an attitude change agent and knowledge builder for the co-operative structure. The co-operative movement peak body, in addition to a constructive relationship with government, needs to ensure that it nurtures positive relationships with a range of agencies or groups that can influence the success of a public policy framework for agricultural co-operatives. These include liaising with industry associations such as the Pastoralists and Graziers Association (PGA), Western Australian Farmers Federation (WAFF) and the Chamber of Commerce and Industry (CCI), a range of professional associations in the professions of law, accounting, banking and finance, management and marketing, among others. Further, other government agencies involved with business development, such as Small Business Development Corporation (SBDC)

and the Business Enterprise Centres are important partners in developing a constructive public policy environment for agricultural co-operatives.

Apart from these relationship strategies, it is essential that the peak body for the co-operative movement have a thorough understanding of the implications of macro-level public policy at the State and Commonwealth government sphere on the co-operative business structure and the development of co-operative public policy. Focusing on the micro-level, in isolation from these wider issues, will not lead to sustainable policy position for the co-operative movement and struggle to be effective.

Agricultural Co-operatives and Statutory Marketing Authorities

The previous section argued that the concept of public good legitimised the development of a public policy framework for agricultural co-operatives. This section explores a related example of public policy for collective farmer activity, the Statutory Marketing Authority. An analysis of SMAs and their association with co-operatives is included in this thesis for two reasons. Firstly, interviewee perceptions revealed some confusion about the differences between SMAs and agricultural co-operatives, to the extent that sometimes it was unclear if interviewees were referring to SMAs or co-operatives. Secondly, in a public policy environment of agricultural industry restructuring, the dismantling of SMAs creates opportunities for co-operatives to form as an alternative structure. Examples of co-operatives forming in the wake of dismantling of SMAs are examined to identify if this will stimulate interest in the model.

Chapter Four revealed that Australian farmer approaches to collective organisational structures has passed through a number of phases. The first phase indicated that early 20th century Australian farmers followed the strategies of other agriculturally focused Western countries by forming co-operatives in response to some form of market failure. Following two world wars and the Depression, but particularly after the Second World War, the second phase emerged with the introduction of Statutory Marketing Authorities (SMAs). Primary producers connected with co-operatives such as Westralian Farmers Co-operative, lobbied government to establish these SMAs and the two collective structures continued to function side by side. In response to changes in government economic and political

positions over the last two decades, a third phase has arisen, resulting in the dismantling of most SMAs. This last phase reveals that the agricultural industry is entering a new period in the agricultural co-operative story.

The Productivity Commission defines SMAs as:

monopoly producer boards, protected by legislation and various import controls [to provide a] vehicle for an array of home price and stabilisation schemes for many commodities. (Productivity Commission, 2000, p ix)

SMAs are grower controlled organisations underpinned by State or Commonwealth government legislation, with final responsibility for their operation sitting with the government that drafted the legislation. The legislation often conveys monopoly power to compulsorily buy and sell farmers' commodities for both the Australian and overseas markets. This pooling and marketing aspect of SMAs is often referred to as 'single desk' (Productivity Commission, 2000) and the two terms are used interchangeably.¹³⁸

Two theoretical concepts support the formation of SMAs arrangements. Firstly, the concept of economies of scale enables growers to pool their homogeneous commodity to achieve reduced costs and highest possible prices in domestic and overseas markets. Secondly, SMAs provide a countervailing power to other actors in the supply chain by bringing small atomised producers together under the banner of the SMA to offset monopoly power of IOFs in the post-farm links of the supply chain (Productivity Commission, 2000). Chapter Two reveals that these arguments are consistent with those put forward in the literature concerning the formation of agricultural co-operatives.

This similarity in theoretical justification and function has clearly resulted in confusion in the literature and by interviewees about the differences between the two structures. Given the imperfect knowledge of the co-operative structure identified in interviews with a range of actors, it is understandable that many interviewees, even those closely connected to the agricultural industry, struggle to differentiate between the co-operative structure and the organisational structure represented by the SMA. While many aspects of SMAs and co-operatives are similar, the compulsory acquisition of commodities via a piece of legislation is the key difference between

138 In addition to the term 'single desk' SMAs are also referred to as Statutory Marketing Boards.

marketing co-operatives and SMAs. The Productivity Commission refers to SMAs as 'compulsory co-operatives' (Productivity Commission, 2000) while agricultural co-operatives are voluntary organisations. Mauldon and Schapper (1974) argue that SMAs are essentially government instrumentalities with farmer representation. Like co-operatives, SMAs are effectively the link between producers and the wider supply chain and have enabled farmers to gain some control over the processing and marketing their commodities (Moran, Blunden, & Bradly, 1996). The interviews suggest that those who hold negative opinions associated with SMAs transfer these views across to the co-operative structure, to the detriment of the wider public perception of the agricultural co-operative structure.

Legislative Basis of SMAs

As Chapter Two illustrated, Cobia (1989) and Torgerson et al. (1997) give some insight to the formation of monopoly co-operative structures underpinned by a legal framework. They argue that Sapiro, an influential agricultural co-operative theorist in the first two decades of the 20th century, advocated that agricultural producers establish centralised monopolies on a commodity basis, supported by legislation. Sapiro argued that orderly marketing would balance grower market power with large external corporations as well as increase returns to farmers.

Torgerson et al. (1997) contend that Sapiro's influence on this type of co-operative structure led to the drafting of the *Capper-Volstead Act 1922*, the *Co-operative Marketing Act 1926*, and the creation of national commodity co-operatives under the Federal Farm Board in 1929. They also credit him with the formation of orderly marketing structures established under the *Agricultural Marketing Agreements Act 1937*.

Sapiro's influence diminished as other co-operative theorists gained favour, particularly Nourse, who advocated the concept of the co-operative competitive yardstick (Torgerson et al., 1997). Nourse viewed co-operatives as a mechanism to address market failure via regionally based co-operatives rather than large centrally controlled structures supported by specific legislation. While the United States drifted away from Sapiro's approach, the timeframe of his influence in the United States corresponds with the period when Australian producers were investigating marketing options (Sandford, 1955).

Linkages between SMAs and Agricultural Co-operatives

The early history of Australian SMAs further reveals the interrelatedness of the SMA and co-operative concepts. Governments, in response to WW1 and food shortages, introduced specific legislation to establish SMAs to ensure an orderly marketing approach for staple food commodities. Many of these early SMAs grew out of already established voluntary farmer co-operatives which had been formed at the beginning of the 20th century to gain higher prices for farmer commodities (Industry Commission, 1991; Sandford, 1955). When various governments sought to withdraw from these arrangements in the years following WWI, farmers lobbied for the retention of these formalised arrangements of SMAs underpinned by government legislation (Sandford, 1955).

Government attention in the SMA mechanism was further reinforced in the 1920s. Increased agricultural production, resulting from soldier settler farms and improving technology, caused a fall in commodity prices and threatened the economic viability of soldier settler farmers. Additionally, it was in the government's interest to continue to support the agricultural industry as it had invested substantial funds in infrastructure, such as roads, rail and irrigation to support these settler farms (Mauldon & Schapper, 1974). The combined impact of these two factors encouraged governments to establish SMAs in a number of commodities to ensure that domestic prices were maintained and farmers able to stay on their properties.

In anticipation of a boom in agricultural production and a corresponding fall in prices following the Second World War, farmers called for the preservation of existing statutory price stabilisation and marketing arrangements. Moreover, the concept was extended as some form of orderly domestic and export marketing system was introduced in this period for most commodities. This practice continued through the 1950s and 1960s (Productivity Commission, 2000).

SMAs were a policy outcome of an era in which Australian farmers and governments were comfortable with active government involvement in orderly marketing. Chapter Three argues that Keynesian policy influence on government can partly explain this affiliation with orderly marketing arrangements. Additionally, a long period of conservative government provided the agricultural lobby group with a mechanism to ensure government intervention in the development of favourable agricultural policy. There was also a long standing belief in government and the

community that the agricultural industry was fundamental to the well-being of the Australian economy (Mauldon & Schapper, 1974).

Chapter Three demonstrates that public policy attitudes towards SMAs changed in the 1970s under the influence of neoliberal inspired economic theory. The shifting public policy position on SMAs can be attributed to the differences in government understanding of their role within the economy. Various reviews of SMAs have been undertaken since the formation of the Industry Assistance Commission by the Australian Labor Government in 1973 (Mauldon & Schapper, 1974), and later the Industry Commission (1991). In recent years, following Hilmer (1993) and the subsequent introduction of the National Competition Policy, all remaining SMAs were scheduled for review (Productivity Commission, 2000).

National Competition Policy

In the National Competition Policy agreement of 1995 with the Commonwealth government, all State governments were required to review all their legislation to ascertain if similar outcomes can be achieved for the community without using legislation (National Competition Council, 1998; Productivity Commission, 2000). Under National Competition Policy, the direction of Australian public policy is undoubtedly towards abandoning these single desk arrangements. The peak farmers association, the National Farmers Federation (NFF), also supports this policy position (Halpin, 1999), although it is more contentious in some agricultural industry sectors than others. The long standing debate within the grains industry over the restructure of the Australian Wheat Board was and remains a very heated issue (Commonwealth of Australia, 1999; Martin, 2006; Skuthorp, 2006).

The argument against SMAs revolves around the economic inefficiencies built into these single desk mechanisms (Productivity Commission, 1999). SMAs are recast as structures that stifle competition; remove farmer incentives to improve productivity and quality and average grower returns despite individual farmer efforts to increase productivity. SMAs are now deemed as constituting an inappropriate form of assistance to the agricultural industry (Productivity Commission, 1999). The Productivity Commission (2000) emphasises that the compulsory element of SMAs and the economic inefficiencies that arise from this, rather than the collective action aspect, is the driver for change. As discussed in Chapter Five, the collective

behaviour of farmers via co-operatives is a separate issue covered by the Commonwealth *Trade Practices Act 1974*.

Under the National Competition Policy (NCP) framework, the burden of proof is on the individual SMAs to argue that their monopoly marketing arrangements are in the public interest (Productivity Commission, 2000). This is clearly a difficult hurdle as many SMAs have been dismantled altogether and elements of other SMA functions have been progressively removed in preparation for industry deregulation. The use of reviews has undoubtedly been a successful strategy for government to bring change to the long established statutory marketing system in agriculture.

In addition to the requirements of the NCP, many of the Western Australian SMAs had regular reviews built into their underpinning legislation. Further, the Western Australian Labor Government, when newly elected in 2001, directed that all statutory authorities be reviewed (The Machinery of Government Taskforce, 2001).¹³⁹ The Western Australian Meat Marketing Corporation was dismantled following a review in the late 1990s (Clarke, 1999). The Western Australian dairy industry was deregulated in 2001 and its SMA dismantled (Economics and Industry Standing Committee, 2003). The Potato Marketing Board, trading as Western Potato, and the Egg Marketing Board, trading as Golden Eggs, were reviewed and subsequently dismantled in 2005 (Agricultural Produce Commission, 2005). Each Australian State conducted similar reviews of SMAs.

Several years after the mid-1990s introduction of the NCP, Western Australia continued to have the largest number of remaining SMAs in Australia (Interviewee 680, 2003). Interviewee 680 (2003) attributed this to several factors. He argued that the power of sections of the agri-political lobby in Western Australia to influence government to retain SMAs combined with the reality that many farmers in Western Australia ardently believe that these structures are serving their needs are partial explanations. Interviewee 680 (2003) advised that a widespread response from Western Australian farmers concerning the implications of the NCP and proposed reviews of SMA was to seek stronger Western Australian government legislation to insulate existing SMAs. He considered that generally, Western Australian farmers' response to international developments in agriculture and the related food and fibre

139 The Taskforce review encompassed all statutory authorities, not just those in the agricultural industry (The Machinery of Government Taskforce, 2001).

industries was to 'build a bigger fire wall' via government intervention to enhance the power and structures of SMAs.

Additionally, he argued that successive Western Australian governments did not have the appetite to deal with the political fallout from the agricultural industry about this matter. Furthermore, some government actors continue to support the retention of these structures. Several interviewees commented that the incumbent Minister for Agriculture, the Hon. Mr Kim Chance is a supporter of the retention of SMAs. Indeed, some interviewees characterised the Minister as an 'agrarian socialist' (Interviewee 672, 2002; Interviewee 680, 2003; Interviewee 686, 2003; Interviewee 695, 2003).

Apart from ideological arguments supporting SMAs, other pragmatic reasons partly explain why the Western Australian government is moving slowly in reviewing SMAs. In the views of some interviewees (Interviewee 660, 2002; Interviewee 665, 2003) SMAs are institutions integral to maintaining an important industry, and hence economic activity, in Western Australia. The recent fresh produce campaigns reflect that urban voters want fresh local produce sold in Western Australia (Agricultural Produce Commission, 2005). Perhaps the government considers that it is electorally unpalatable to dismantle institutional arrangements that contribute to ensuring safe local produce is sold in Western Australia. Despite these possible sentiments, the implications of not complying with the requirements of the NCP conveys a significant financial burden on Western Australia which will no doubt influence the final decision in relation to the remaining SMAs in Western Australia.

Interviewee Perspectives and Insights

The interviewees frequently referred to Co-operative Bulk Handling (CBH) as an example of an agricultural co-operative with which they were familiar. Additionally many were also aware of CBH's ability to compulsorily acquire producer grain, thereby paradoxically referring to it as an SMA. These interrelated functions within CBH have led to lack of clarity among some interviewees about what a co-operative is and how it differs from a SMA. This misunderstanding about CBH is also demonstrated at government level. Under National Competition Policy, the Productivity Commission identified CBH as an SMA for review (Competition Policy Unit Western Australian Treasury, 2001).

Mauldon and Schapper (1974) clarify to an extent why this misunderstanding about the distinction between an SMA and an agricultural co-operative arises. Mauldon and Schapper (1974, p 166) argue that some 'successful farmer co-operatives ... act as agents for statutory marketing boards, such as Co-operative Bulk Handling in Western Australia...'. Sandford (1955) explained that the founding members of CBH believed that the co-operative would only be viable if it was able to collect all Western Australian grain. This, they argued, could not be guaranteed in a free market situation so the co-operative proponents successfully made a case to the Western Australian government to draft legislation granting CBH the sole right to compulsorily acquire all grain from Western Australian producers (Co-operative Bulk Handling, n.d.; Sandford, 1955). While CBH is registered under the Western Australian *Corporations (Co-operative) Act 1943* as a farmer owned and controlled co-operative, it also functions under a specific piece of Western Australian legislation, the *Bulk Handling Act 1967*, which effectively removes farmer choice about which organisation can handle their grain.

According to the Western Australian government, CBH is not an SMA but rather a privately owned co-operative and therefore it does not fall under the requirements of the National Competition Policy (Competition Policy Unit Western Australian Treasury, 2001).¹⁴⁰ However, while the Western Australian government rejected the NCP requirement to review CBH on the basis of it being an SMA, the government planned to review the underpinning legislation, the *Bulk Handling Act 1967* as it was conducting reviews of all Western Australian legislation (Competition Policy Unit Western Australian Treasury, 2001; The Machinery of Government Taskforce, 2001). CBH reveals some uncertainty in the industry and government policy makers about the differences between agricultural co-operatives and SMAs, as it occupies a strange space as a quasi SMA quasi co-operative. This lack of clarity about CBH carries over to other SMAs and agricultural co-operatives and accounts for the confusion among interviewees and other actors about the differences between the two structures. Further, many interviewees colloquially referred to SMAs as co-operatives, further confusing the differences between the models.

Two divergent groups arose in interviewee perspectives of SMAs and by implication, agricultural co-operatives. The interviews suggested that those who

140 The CFWA also argues strongly that the CBH is a co-operative and not an SMA (Interviewee 797, 2004).

support SMAs tend to be older farmers or industry actors, possibly reflecting Keynesian or agrarian socialist influences towards agricultural industry public policy. They retained, through inter-generational memory, knowledge that agricultural co-operatives and SMAs were formed to ensure farmers were able to survive economically difficult times by instituting collective business structures. For this group, it did not really matter what business structure, an SMA or a co-operative, was used. The main objective was that the co-operative principles of farmer control and farmer benefit via profit distribution to members were central pillars in the business structure. The similarity in the objectives of the SMA and agricultural co-operative structure was the key to understanding this group's views. Further, they did not express concern about their inability to correctly distinguish between a co-operative business and an SMA.

Conversely, interviewees who favoured a drier economic analysis highlighted the negative features of the SMA as argued by the Productivity Commission (2000). Interviewees holding this view tended to be from either the wider agribusiness sector or younger farmers who were tertiary educated in agri-business, economics and management theory. Both groups focused on the compulsory element of SMAs leading to inefficiencies, and their externally imposed politicised nature. Negative perceptions in these groups about SMAs were often then transferred to the co-operative model, as they were both perceived as similar types of organisations.

While some younger farmers hold a negative view of agricultural co-operatives due to similarities in function and structure with SMAs (Interviewee 689, 2002), Madden (2003b) presents an alternative perspective. He argues that its younger members are the 'better quality' members because they understand business and can evaluate the benefits of the co-operative model using these business tools. Younger farmers, he contends, have not grown up in the SMA 'era' and arguably are not tainted by the negative views about them. This segment, while trained in the theory of the free market economy, can evaluate the economic benefits of the co-operative model without the 'baggage' of the former SMA era. While co-operatives may not fit the traditional IOF business model of an open market, this segment, Madden (2003b) argues, can apply their economic training to identify the financial benefits of the collective business model. Lastly, he believes, young farmers perceive the new co-operatives, such as the UFCC and Challenge, as their own enterprises, while SMAs were externally imposed models with overtones of political

interference. Appendix Four outlines a proposed typology of farmer attitudes, based on Madden (2003b) and other interviewee perceptions, of the agricultural co-operative model.

Dismantled SMAs Adopting Co-operative Structures

The dismantling of SMAs in Western Australia has had an interesting outcome. A co-operative structure has evolved from deregulation of Western Australian SMAs in the agricultural water industry, the dairy industry and the meat processing and marketing industry. The Western Australian Meat Marketing Co-operative (WAMMCO) was formed as a farmer owned co-operative to undertake the abattoir and marketing functions of the former SMA. Following the dismantling of its SMA, a small group of producers established a dairy processing co-operative, Challenge Dairy Co-operative, although the functions of the co-operative are different from those of the former dairy industry SMA.

The co-operative model was raised as option in a government discussion paper for the egg industry in the event that the industry SMA was dismantled (Western Australian Department of Agriculture, 2002a). The SMA was dismantled in 2005 and its assets transferred to a producer owned company, West Coast Eggs Limited, which trades as Golden Egg Farms (Agricultural Produce Commission, 2005). The potato industry SMA was the last remaining SMA for that industry in Australia and the Board and industry strongly but unsuccessfully lobbied for its retention (Interviewee 686, 2003; Potato Marketing Corporation of Western Australia, 2003). Potato industry restructuring commenced in 2005 with a producer owned entity assuming responsibility for marketing and promotion functions (Agricultural Produce Commission, 2005).

Role of Government in Forming Co-operatives in Place of Dismantled SMAs

The creation of a co-operative structure following industry deregulation provides an insight into the role of the Western Australian government and Minister for Agriculture. According to Booth (2004), the Western Australian government initiated the formation of regional farmer owned and controlled co-operatives following deregulation of the water industry. Interviewee 680 (2003) indicated that the decision for the meat marketing SMA to adopt a co-operative structure was

essentially a politically driven one. The fledgling Challenge Dairy Co-operative received a significant grant from the Western Australian government in the wake of dairy industry deregulation (Bowen, 2003). The hand of government is clearly connected with these examples of a co-operative business structure arising from dismantled SMAs.

Clarke (1999) explains the behaviour of the then Western Australian Coalition Government's role in the late 1990s in dismantling the financially vulnerable meat industry SMA and the subsequent installation of the WAMMCO co-operative structure as a form of the 'third way'. Hamilton (2001, p 89) defines the 'Third Way' as searching 'for a means of grafting traditional social democratic concern for equality and social justice onto an economic system based on free markets'. Interviewee 680 (2003) argued that while a minor partner in the former Western Australian Coalition Government, the National Party was a controlling force in the agricultural industry and the Minister for Agriculture was from the National Party. According to Interviewee 680 (2003), the Liberal Party ideology was essentially neoclassical economic theory, while the National Party approach was still linked with concepts found in agrarian socialism. As a result, the Western Australian government was reluctant to upset the National Party members of the Coalition, which were concerned about letting the free market resolve the destiny of the meat industry and the possible implications for rural industries and communities. Yet it was also reluctant to become involved in the meat industry as an equity partner in a business venture. The Western Australian government had previously been connected with a number of abattoirs with negative political outcomes (Clarke, 1999). The 'third way' provided the Western Australian government with a politically acceptable pathway between these ideological differences.

The traditional co-operative model provided the government with a strategy to achieve this 'third way'. Similar to an SMA, the co-operative structure retains control and ownership by the industry, with profits going back to the farmers, but, distinct from the SMA, government no longer has a role. Clarke (1999) argued that this strategy provided the government with a 'win-win' situation as the meat industry SMA was dismantled, fulfilling its NCP requirements. Secondly, producers were sheltered from the vagaries of the market by the co-operative structure.

Clarke's 'third way' arguments help explain the present Western Australian Labor Government's involvement in dismantling SMAs in other agricultural sectors

and facilitating the development of farmer controlled businesses in their wake.¹⁴¹ However, the role of the Western Australian government in initiating new agricultural co-operatives needs to be carefully considered. This chapter has argued that it is an appropriate role for government to support agricultural co-operatives due to their public good function in correcting market failure. Therefore, it is reasonable for government to develop a public policy framework for the agricultural co-operative sector. The United Nations Guidelines identify that the role of government should be arm's length rather than proactive and top down and that it is not appropriate for government to initiate agricultural co-operative development (United Nations, 1998). The WAMMCO scenario suggests that the Western Australian government was the driving force behind the development of the co-operative. The hand of government can also be seen in the dairy processing co-operative and the various regional water industry co-operatives. However, given the weak institutional environment surrounding the Western Australian agricultural co-operative sector, these initiatives would not have eventuated without the driving role of government, to the disadvantage of producers in these industry sectors.

Conclusion

This chapter has explored the implications for two matters concerning government public policy that partly explains the contemporary environment for agricultural co-operatives. The chapter firstly explored the public policy position for agricultural co-operatives, with a particular focus on the appropriate role of government agencies in shaping this. Secondly, the chapter analysed the relationship between agricultural co-operatives and SMAs and the public policy role of government in this relationship.

The chapter identified that there are constructive elements in Western Australia on which to build a positive public policy framework for agricultural co-operatives. The Western Australian Department of Agriculture has demonstrated its

141 Farmer controlled and owned business structures may be registered under the Commonwealth *Corporations Act 2001* rather than the Western Australian *Companies (Co-operative) Act 1943*. Only entities registered under the latter legislation can be labelled 'co-operatives', resulting in new entities adopting the term 'farmer owned company'. According to Interviewee 822 (2002), the *Corporations Act 2001* enables farmers to achieve all that they wish for a co-operative business by embedding co-operative principles into the constitution, with the exception of the name 'co-operative'. This approach also provides the added advantage of the benefits and flexibility of the Commonwealth legislation, overcoming shortcomings in the State legislation.

interest in the public good potential of the co-operative model and initiated several projects, which along with the favourable legislative framework, can form the basis of a revamped public policy for agricultural co-operatives.

The chapter also explored the appropriate role of government for agricultural co-operatives following the dismantling of SMAs. The chapter identified that there are similarities between the agricultural co-operative structure and the SMA structure that often caused confusion about the critical distinctions between them. Neoliberal informed economic policies leading to the dismantling of SMAs has paradoxically provided opportunities for developing agricultural co-operatives in their wake. In conclusion, this chapter argued that there is a legitimate role for government to stimulate a public policy environment favourable towards agricultural co-operative development.

CHAPTER SEVEN

United Farmers Co-operative Company Case Study

The UFCC will not deviate from the co-operative principles.
(Madden, 2003b)

The UFCC objective is to maximise return to shareholder farmers' enterprise. (Madden, 2003b)

Introduction

Two chapters are devoted to the case study of United Farmers Co-operative Company (UFCC). This first chapter identifies the conditions that led to the genesis of the co-operative and reviews the early years of its evolution. The chapter analyses both the economic and less acknowledged sociologically influenced factors contributing to the co-operative's birth. Chapter Eight examines the UFCC as a maturing co-operative, with a particular focus on its internal dynamics.

The case study is based primarily on long interviews in late 2002 and early 2003 with two actors associated with the co-operative, one of whom was the founding Chairman, Mr Rod Madden (2003b). At the time of the interviews, the Chair had held this position for about a decade. Additional information about the UFCC was gathered via the rural media, in the wider national co-operative movement newsletters and updates on the UFCC website. Comments from other interviewees who were not directly connected with the UFCC also added to the wider understanding of this agricultural co-operative.

Background

The United Farmers Co-operative Company (UFCC) is predominantly a supply co-operative of fertiliser and agricultural chemicals, focusing mostly on the broad acre grains industry of Western Australia. In the last few years, it has also

supplied other Western Australian agricultural industries, such as the horticulture and dairy industries, with chemicals and fertilisers (United Farmers Co-operative Company Webpage, n.d.). Recent developments at the UFCC have been the addition of value added services such as a grains pooling and marketing division and crop risk management services (United Farmers Co-operative Company Webpage, n.d.).

The UFCC was incorporated as a co-operative in 1992 under the *Companies (Co-operative) Act 1943*. By 2002, it had grown to around 3000 farmer members¹⁴², representing approximately 50 per cent of broad acre farmers in Western Australia (Interviewee 650, 2003; Madden, 2003b). Within a decade, the co-operative had an annual turnover of around \$100 million, assets of \$20 million, and rebated over \$34 million to shareholders (United Farmers Co-operative Company Webpage, n.d.). The UFCC, in 2002, had approximately 60 employees in full-time and part-time positions (Interviewee 650, 2003; Madden, 2003b). Its head office is located at the Fremantle Port in Rous Head, Western Australia, with storage facilities in Perth, Kwinana, Geraldton, Esperance and Albany. Membership of the UFCC is restricted to individuals who are involved in some form of commodity production in any sector of the agricultural industry (United Farmers Co-operative Company Webpage, n.d.). Member shares are \$1.00 each, and the UFCC requests that members hold 1000 shares, representing a \$1,000 investment in the UFCC (United Farmers Co-operative Company Webpage, n.d.).¹⁴³ The *Companies (Co-operative) Act 1943* requires that the UFCC conduct 90 per cent of its business with its membership (United Farmers Co-operative Company Webpage, n.d.).

The Creation of an Agricultural Co-operative

Madden (2003b) maintained that the UFCC was formed to duplicate one of the core functions of the former agricultural co-operative, Westralian Farmers Co-operative (now Wesfarmers), which had historically provided its farmer members with agricultural chemicals and fertiliser via the subsidiary CSBP Limited. Despite its past as an agricultural co-operative, Madden argued that, as a company, Wesfarmers was essentially a corporate monopoly supplier of fertiliser, extracting

142 The UFCC refers to its members as shareholders. Throughout this case study, the terms are used interchangeably.

143 Members are able to purchase fewer shares initially and build up their 1000 shares over time, funded via patronage rebates (United Farmers Co-operative Company Webpage, n.d.).

high profits from farmers. To illustrate his point, he stated that in 1991, the Wesfarmers annual report indicated that of its \$55 million profit for the financial year, \$50 million had been drawn from fertiliser sales to farmers. This was particularly bitter for Madden, as previously when Wesfarmers was an agricultural co-operative, its objective was the provision of services to farmers at cost. However, he contended that, as a corporation, Wesfarmers was maximising profit for shareholders at the expense of farmers.

The Chair's interpretation of Westralian Farmers Co-operative conversion into a corporation is arguably the most significant of the multiple triggers leading to the genesis of the UFCC. In Madden's words, Wesfarmers represented the 'power of corporations to leach profit away from rural areas' (Madden, 2003b). Further, Wesfarmers confirmed that individual family farms powerlessly butt up against large corporations in the agricultural supply chain, unless they collectively and influentially link into the chain under the aegis of their own agricultural co-operative. The Wesfarmers experience, the Chair believed, highlighted the dangers associated with farmers losing control of their own co-operatives and therefore control of their own destiny.

In addition to the increasing price of fertiliser and agricultural chemicals charged by Wesfarmers, Madden argued that the prices of other farm inputs were also increasing via the influence of several other corporates or multinationals entering the agricultural industry. The Chair argued that farmers had an 'almost pathological hatred of multinational corporations' based on their collective historical experience of exploitation by corporations (Madden, 2003b). An agribusiness consultant in the grains industry (Interviewee 688, 2001) also supports this perspective about farmers' significant dislike of corporations and it is a reoccurring theme in Sandford's (1955) work. Corporations, the Chair argued, had only one motive to get involved in the agricultural industry and that was to 'take what little profit was left in the industry away from producers and rural regions' (Madden, 2003b).

Apart from the issue of Wesfarmers and the subsequent increase in the cost of farm inputs, Madden identified several other economic factors that were instrumental to the formation of UFCC. During the late 1980s and early 1990s, Australian agriculture was in a well-established and continuing period of restructuring based

around the concepts of neoclassical economic theory (Lawrence, 1987). The Commonwealth government corporatised the Australian Wheat Board (AWB) and dismantled the 'guaranteed minimum price' (GMP) scheme (Pritchard, 1998), changing a long established method of paying farmers for grain collected by the AWB. The price of wheat also collapsed in this period as the Australian dollar rose in value (Madden, 2003b). Madden cited the damaging impact of record interest rates during the early 1990s on farm businesses and that banks foreclosed on farmers 'with no compunction'. He added that the lack of farmer payments for wheat shipped to Iraq as a result of the 1991 Gulf War also contributed to the difficult economic circumstances facing Western Australian farmers (Madden, 2003b).¹⁴⁴ Madden commented that farmers who had borrowed money to expand their operations following the successful Western Australian seasons and strong commodity prices of the early 1980s, which at the time appeared to be a reasonable strategy, were particularly financially vulnerable in the late 1980s and early 1990s due to these multiple factors (Madden, 2003a). Madden (2003a) stated that 'Not since the great Depression of the 1930s had there been a greater need for a co-operative to be formed.'

The combined impact of these events motivated the Chair and a farmer colleague from the same grain growing region to form a political lobbying group, the Rural Action Movement, to highlight and address the difficulties facing farmers. The Chair believed that State and Commonwealth governments were not adequately assisting farmers caught in this multifaceted vise.¹⁴⁵

However, Madden became uncomfortable in this new role of a politicised farmer lobbyist. Madden is reported as stating 'We started the Rural Action Movement out of frustration - because farmers were getting a raw deal and nobody was listening' (Lee, 2003, p 1). He asserted in interviews for this thesis that he did not enjoy being involved with the media or meeting with what he termed 'dopey

144 When Iraq invaded Kuwait, United Nations sanctions prevented Australian wheat farmers from receiving a \$480 million payment for wheat delivered over the previous three years. Most of the debt was recouped in following years via insurance compensation payments, but the Australian Government forgave the remaining \$98 million debt in 2004, leaving some farmers with a deficit of up to \$20,000 (Parliament of Australia Senate, 2005).

145 Western Australian farmers were not alone during this period in confronting these problems and forming activist lobby groups. Halpin (1999) refers to unfavourable economic conditions producing activist lobby groups and that a Rural Action Movement (RAM) also formed in NSW in a similar timeframe.

politicians' whom he believed were not genuinely interested in doing anything constructive about the dire situation of farmers (Madden, 2003b). Madden became disenchanted with RAM's inability to influence agricultural policy politically. According to Lee (2003, p 1), Madden stated '...it seemed we were working hard for so little and I decided I was wasting my time with politics'. He elected to withdraw from this activist role and focus on achieving an economic outcome to offset the escalating costs of farming. Lee (2003, p 1) quotes Madden stating 'When someone suggested that we could import fertiliser cheaply, I decided it was a good way to help make the family farm more viable, which had always been my goal'. This, Madden considered, was a practical activity that could be achieved by farmers themselves to address one of the economic dilemmas they were confronting, that is, the cost of farm inputs.¹⁴⁶ The short period of political activism by the individuals who became the Directors of the UFCC had ended.

Forming the UFCC

The UFCC commenced its commercial life in July 1992 with five farmer shareholders contributing \$1,000 each (Madden, 2003a).¹⁴⁷ The objective of the new co-operative was to, on behalf of its members, lower the price of farm inputs and therefore increase the financial viability of the farm business.¹⁴⁸ The Directors identified four major farm business cost points as fertiliser, chemicals, finance and fuel. Fertiliser was selected as the initial focus of the UFCC, and subsequently it determined that it would investigate opportunities in reducing the costs to farmers associated with chemicals, and later finance and fuel (Madden, 2003a). As an

146 Interviewee 689 (2002), an agribusiness consultant, argues that the UFCC had been able to find a space in the fertiliser market because of earlier activity by AgDirect, a small for-profit business which had imported fertiliser into Western Australia. According to Interviewee 689 (2002), AgDirect broke the Wesfarmers connected CSBP Limited's stranglehold on the fertiliser market and was able to capture a significant percentage of that market. As a result of this breakdown in the CSBP monopoly, he argued that other fertiliser importers were able to enter the market, including UFCC (Interviewee 689, 2002). Actors connected with the UFCC did not raise this background information.

147 The Western Australian *Corporations (Co-operative) Act 1943* requires a minimum of five members to incorporate a co-operative.

148 This is similar to a concept in Torgerson, Reynolds, & Gray (1997) who refer to work conducted in the 1940s by Emelianoff. He argued that an agricultural co-operative is an 'aggregate of economic units' represented by its members and is not itself an 'acquisitive economic unit'. Torgerson et al. (1997) summarised Emelianoff's understanding of the co-operative as an agent of its members who collectively are the principals. Cook reinforces Madden's concept by stating that 'The co-operative's goal is to enhance the financial well-being of its owners as producers, not as investors. Thus, a co-operative is appropriately viewed as an extension of a producer-owner's farming operation' (Cook, Ratchford, & Griffith, 1995, p 1).

interview in 2003 confirms (Lee, 2003), Madden, in late 2002, considered that the UFCC had not lost sight of its original purpose to provide members with the best priced fertiliser to enable the farmer members' businesses to be more profitable.

The UFCC developed a 'statement in lieu of prospectus' and commenced a promotional campaign to encourage other farmers in rural communities throughout Western Australia to become members of the new co-operative (Madden, 2003a). This involved Madden personally undertaking a series of meetings from Esperance to Northampton and all country towns in between. In a few months, \$66,000 was raised and the Directors employed a manager and set about the task of importing fertiliser (Madden, 2003a). The lack of a strong capital base meant that the Board of Directors was unable to employ additional staff. The Board decided to directly contract Conbata Pty Ltd as the procurement agent, and Bakke Shipping Pty Ltd to arrange the shipping and logistics on a commission basis. This strategy enabled the Board to calculate fixed costs in advance, enabling the co-operative to provide fertiliser to members at an extremely low cost.

The fledgling co-operative's low capital base and lack of organisational history inhibited the Board's ability to access credit from any banks. Therefore, members were required to pay well in advance for their fertiliser. When funds had been raised and a letter of credit organised, the procurement and shipping agents attended to their respective tasks. This strategy leveraged the modest co-operative capital and skill base and enabled the Directors to focus their efforts on the promotional aspects associated with building the co-operative's membership base. Ironically, Madden (2003b) reflected, if the Board had had the funds to employ more people at that early point, rather than contract in the required expertise, the co-operative's development may have been retarded due to the probable lack of breadth in in-house skills to import and distribute fertiliser.

In the first year, the co-operative achieved a turnover of \$14.7 million, with a profit (surplus) of \$1 million. As it had been difficult to raise the start-up capital in the first year, the Board decided to rebate the co-operative surplus to its members as 80 per cent bonus shares and 20 per cent cash, thereby retaining \$1 million in cash as

share capital in the first year.¹⁴⁹ The co-operative determined that it would not pay any dividends, as it firmly believed the dividend to members was in the form of the lower cost of fertiliser. Implementing this strategy in the first year meant that the co-operative did not have to deal with many of the issues associated with sourcing funds for a fledgling co-operative. Capital raising, according to several Australian agricultural co-operative sector commentators, is a major impediment to co-operative formation and development, and the most significant issue facing Australian agricultural co-operatives (see Greenwood, 1999; Langdon, 1991; O'Connor & Thompson, 2001).

In the first two years, the UFCC was able to competitively import fertiliser on behalf of its membership with very simple logistical techniques and infrastructure requirements. Fertiliser was discharged from the ships directly into members' trucks on the wharf. Additional storage was hired if required (Madden, 2003a). This uncomplicated approach enabled the UFCC to build a judicious capital base from its modest beginnings.

However, the presence of the UFCC in the market place did not go unnoticed by its competitors. Providing a service at cost based on co-operative philosophy impacted on the IOF price of fertiliser in Western Australia. CSPB Limited was substantially threatened by the presence of the UFCC in the market place, and had retrenched several hundred employees in this short period of competition from the UFCC (Madden, 2003a). However, by the third year of UFCC operation in 1995, CSBP Limited recognised that the UFCC had a limited capital base and that the co-operative could not offer an up-front price for fertiliser (Madden, 2003b).¹⁵⁰ CSBP Limited implemented a loss leading strategy to exploit these weaknesses (Madden, 2003b). It undercut the UFCC by selling fertiliser at a lower price than it or its competitors could source it, even though it was financially unprofitable for CSBP Limited to adopt this strategy (Madden, 2003b). A 'fertiliser price war' erupted between CSBP Limited and the UFCC (Madden, 2003b). Madden is adamant that the objective of Wesfarmers, (the parent company of CSBP Limited), was to drive the

149 The 80 per cent/20 per cent split in the UFCC rebate strategy is explained in Chapter Eight. The UFCC therefore has two categories of shares – member shares valued at \$1.00 each, and bonus shares created from the patronage rebate mechanism adopted by the UFCC.

150 The UFCC pricing for fertiliser comprises two parts, the original purchase price and the effect of the rebates on this initial price. The original purchase price is comparable to the market price set by competitors. This price is then offset by the rebates members receive annually. Rebates are discussed elsewhere in this chapter.

potentially financially vulnerable UFCC out of business (Madden, 2003a, 2003b). The UFCC Board of Directors, recognising that it could not compete with this artificially low price, rapidly developed a response based on its co-operative objective of supplying its members with the lowest priced fertiliser (Madden, 2003b). The Board swiftly recommended to its members by fax, telephone and letter that the prices offered by CSBP Limited were lower than what the UFCC could purchase it and recommended that members purchase their fertiliser from Wesfarmers (Madden, 2003b). UFCC members followed this advice and Wesfarmers suddenly had overwhelming numbers of orders for fertiliser that was significantly underpriced, immediately affecting its own profitability. Within two weeks, the price returned to its original level. While the UFCC did not make a profit in that third year, it had achieved its foundation goal of lowering the price of fertiliser for its members (Madden, 2003b).

A third player, Summit, was also caught up in this price war. Summit's response to the lowering of the Wesfarmers price was to match it although it was at a price that impacted on Summit's own profitability (Madden, 2003b). Madden (2003b) argued that Summit adopted this strategy as they could not afford to have their customers seduced by the low Wesfarmers price for fertiliser because they may switch altogether, threatening Summit's future business (Madden, 2003b). He believed that Summit lost significantly from the price war (Madden, 2003b).

The UFCC had survived its first commercial challenge to its position in the market by relying on the co-operative principles to guide its strategy. This episode demonstrates the ethics underpinning the UFCC philosophy as a low cost supplier of fertiliser. While the UFCC did not itself supply the fertiliser, it achieved the objective of lowering the cost of fertiliser to its membership. However, Madden (2003b) volunteered that if a similar situation in which a competitor sought to destabilise the UFCC via price war arose as the co-operative matured, the UFCC would not be able to take such a principled stand. To illustrate, the Chair said that as a result of a change in Australian Quarantine Inspection Services (AQIS) requirement, members could no longer collect their fertiliser directly into their trucks from the wharf (Madden, 2003b). In response to this, the UFCC instigated a program of building storage facilities at various ports at considerable expense. Consequently, each storage facility had fixed overheads and needed to operate at optimum capacity to ensure that

members were assured of the lowest price for fertiliser. The co-operative, therefore, was no longer financially unencumbered as in 1995 when it could make the principled decision not to import fertiliser and recommend its members purchase elsewhere (Madden, 2003b). This account suggests that the life cycle of the maturing agricultural co-operative has inexorably led to different internal business strategies and therefore different responses to external threats.¹⁵¹ The case study reveals that the co-operative principles did not provide the over-riding guidance for a maturing agricultural co-operative as it did in its formative years. As the case study unfolds further in Chapter Eight, other incidences in the evolution of the UFCC highlight the conflicts an agricultural co-operative tussles with in trying to apply the co-operative principles throughout its life cycle.

UFCC and Agricultural Economic Co-operative Theory

The factors cited by Madden leading to the birth of the UFCC illustrate that traditional economic theory for the formation and continuation of co-operatives is still a powerful explanation for the establishment of Australian agricultural co-operatives. Chapter Two demonstrated that the ability of agricultural co-operatives to achieve economies of scale or break the power of monopolies are key triggers motivating farmers to establish co-operatives.

The episode with CSBP Limited illustrates that market failure arising from monopoly (or monopsony) situations prevent farmers from participating fairly in a market (Cobia, 1989; Cook, 1995). This can be demonstrated historically in the literature, as farmers formed an agricultural co-operative as a strategy to counter the power and influence of powerful corporations (Cobia, 1989; Cook, 1995; Craig, 1993; Hansmann, 1996). The high prices Western Australian farmers were forced to pay in the early 1990s for fertiliser supplied by companies such as CSBP Limited exposes this type of market failure. An agricultural co-operative, with its capacity for economies of scale, can provide a countervailing balance to an exploitative market

151 The concept of life cycle is described in Chapter Eight. It is a useful adaptation of a biological concept to understand the evolution of an organisation through stages of establishment, growth, maturation and potential decline. Cook's (1995) five stage theory of the evolution of co-operatives also indirectly suggests that agricultural co-operatives travel through a number of relatively predictable life cycle stages.

situation and introduce a fair market price [a ‘floor price’]¹⁵² for a commodity (Cobia, 1989). The entry of the UFCC to the market illustrates this countervailing ability because as a co-operative it was quickly able to lower the market price charged by corporates for chemicals and fertiliser in Western Australia (Madden, 2003b). The UFCC demonstrates the relevance of agricultural co-operative economic theory in explaining contemporary Australian agricultural co-operatives, and importantly, that an agricultural co-operative is a proven strategy to address present day market failure.

The threat posed by CSBP Limited in the 1995 ‘fertiliser war’ also led the UFCC Board of Directors to acknowledge that, as with any organisation, the co-operative needed to address its strategic planning processes and future direction. With the support of external management consultants, the UFCC Board of Directors and management developed a clearer understanding of the fertiliser industry and the import and logistics business. The UFCC Board of Directors were able to overcome an issue found in the literature (see, for example, Patrie, 1998) in which farmer Directors, whose expertise lies in commodity production, are guiding a commercial entity in another sector of the agricultural supply chain in which they have very little knowledge, experience or sophisticated management expertise. However, the Board succeeded in this backwards vertical integration, as the UFCC achieved significant financial returns over the next two years. This in turn enabled the UFCC to develop strong relationships with their bankers which resulted in favourable and flexible trading terms (Madden, 2003a), addressing another problem commonly attributed to the agricultural co-operative model of difficulties in capital raising. Over the next decade, the UFCC established itself as a major player in the agricultural supply sector of the agribusiness industry, with an annual turnover in 2002/2003 of \$100 million and more than 3000 farmer members in Western Australia (United Farmers Co-operative Company Webpage, n.d.).

Madden’s explanation for the formation of the UFCC reflects a strong economic focus. Indeed, many of the interviews conducted for this thesis suggest that agricultural industry actors adopt the concepts of economic theory and use the

152 Western Australian actors often use the phrase ‘floor price’ to describe the effect of an agricultural co-operative in a market on price.

language associated with the IOF business structure to explain the presence of agricultural co-operatives in Western Australia.

The UFCC and Sociologically Informed Enquiry

While agricultural economic co-operative theory helps explain the formation of the UFCC, sociologically informed enquiry provides different perspectives on the establishment of the UFCC to complement economically informed explanations. Madden stated that the five founding UFCC Directors knew about the co-operative model as a result of their exposure as grain growers to agricultural co-operatives in Western Australia, particularly Co-operative Bulk Handling and Westralian Farmers Co-operative. As Chapter Four demonstrates, the Western Australian grains industry and the wider agricultural industry was historically steeped in the agricultural co-operative business approach to integrate with and control other links of the agricultural supply chain. The early development of the Western Australian agricultural industry and the evolution of agricultural co-operatives were highly entwined, leading to a prosperous industry following WWII (Sandford, 1955). As the founding UFCC Directors were from long established grain farming families well embedded in their communities, they were very aware of the role that co-operatives had played over the generations in the viability their own family farms. Therefore, the co-operative model was fully institutionalised into the broad acre grains industry of Western Australia and an accepted and understood strategy.

The five founding Directors sought the advice of an accountant, Mr Don Munro, who at the time was closely associated with the CFWA, in forming the co-operative. The accountant had a library of agricultural co-operative books and lent some of these to the Chair. The ability of the group to identify and consult an accountant with a strong knowledge of the co-operative business structure demonstrates the historical depth of agricultural co-operative institutionalisation, although the UFCC was fortunate that this level of support was still available at this time from Munro, who was close to retirement. Chapter Five and Six argue that this institutionalisation has diminished over the last 20 years or so and the ability to access this level of professional expertise in the first decade of the 21st century is highly debatable.

The Chair commented that emotion rather than agricultural co-operative economic theory or business knowledge originally drove the formation and early development of the UFCC. He recognised that they 'got the UFCC right without really realising it and that there was a lot of luck involved' (Madden, 2003b). However, he also added wryly that 'you make your own luck' (Madden, 2003b). These comments reflect the informal and unconscious knowledge that the founding members had developed over their lives about the agricultural co-operative business model. Simply as a result of being immersed within the agricultural industry and watching the significant agricultural co-operative institutions which had a considerable and influential role within the industry, they were highly but perhaps unconsciously socialised into the co-operative business approach. The formal research they commenced once they had decided to create the UFCC merely built on this implicit understanding they already had. The experience of the UFCC illustrates that individuals motivated to form an agricultural co-operative tap into a deeply embedded folk memory that forms a connection between people from which to further develop the co-operative concept.

After the UFCC was established, the Chair sought to expand his knowledge of the agricultural co-operative business structure and travelled to Britain and the USA to observe other co-operatives. He also read widely on co-operative theory, attended co-operative and corporate business courses, conferences and workshops, such as the Monash Agribusiness Co-operatives Conference, the Co-operative Federation of Western Australian conferences and the Australian Institute of Company Directors seminars. Interviews with the UFCC Chair for this thesis revealed that he had developed a deep knowledge of co-operative history and values and was comfortable in discussing co-operative theory. Increasing knowledge of co-operative theory reinforced his commitment to the co-operative business model and confirmed to him that 'they had got it right with the UFCC' (Madden, 2003b). His belief in and commitment to the co-operative structure had not wavered as the UFCC matured into a successful and influential agricultural organisation.

The Chair's view that a deep-seated distrust in the farming sector of corporations also suggests non-economic triggers are a factor in co-operative development. This intense suspicion of corporations by farmers also demonstrates a complementary need by farmers to 'control their own destiny' (Madden, 2003b). The

Chair believed that farmers understood that ownership of their co-operative business enabled them to achieve this level of control in their industry. He considered that the co-operative concepts of 'member owned' and 'member controlled' were not only easily understood concepts, but were very meaningful for farmers as they satisfied this deep need for control. The co-operative business structure, with its high intrinsic trustworthiness, combined with farmers' ability to exert control over their own situation and thus avoid economic dependence on corporations they did not trust, was a powerfully motivating combination of features for farmers.

The UFCC as an Expression of Agrarian Socialism

The Chair's focus on farmer distrust of corporates reflected a philosophical and ideological battle about neoliberal influenced capitalism and the way that it is rolling out in Australia. However, several interviewees suggested alternative motivations for this strong aversion of corporations and embracing the co-operative model. An interviewee from the accounting industry specialising in the agricultural industry (Interviewee 695, 2003) believed that farmers' inherent 'socialist' outlook was a key feature which attracted farmers to the co-operative structure. Therefore, he argued, the founding members of the UFCC may have had this philosophical commitment to this type of business structure, as it was consistent with agrarian socialism. An agribusiness consultant in the grains industry (Interviewee 688, 2001) considered that the co-operative model used by the UFCC represented a version of 'feel good economics' which he believed was appealing to its members. He suggested that farmers who join agricultural co-operatives were drawn to the dual benefits of an economic return for their farm business combined with a social benefit for their communities and the industry (Interviewee 688, 2001). The interviewee also added that he thought that farmers have supported the UFCC because the UFCC is the underdog and helping them out by becoming members appealed to farmers' sense of fairness. He also thought that UFCC members want something different from what Wesfarmers or other corporates could offer them, illustrating this with the view that farmers felt that corporates took them for granted, unlike a member based agricultural co-operative (Interviewee 688, 2001).

These comments about 'feel good economics' and agrarian socialism reveal a perception by some agribusiness advisors that there is a segment of the agricultural

industry who are wedded to remnants of Keynesian style economics in Australian agriculture and this is the segment which is also attracted to the co-operative structure. This view implies that the UFCC membership represents an element in agriculture that is perhaps disillusioned by the perceived social and environmental costs of the form of capitalism practised in Australia today. However, the Chair dismissed these possible explanations of 'feel good economics', agrarian socialism or the Australian ethos of 'supporting the underdog' as reasons for farmers supporting the agricultural co-operative model. The Chair maintained that he was very committed to the pragmatic economic outcomes of the co-operative structure that he believed was the overriding motivating factor for farmer attachment to the structure. He wryly added, to support his position, that one of the Board members was definitely not a 'socialist' type; on the contrary, he was very committed to dry economic theory.

The UFCC as an Expression of Social Capital

The Chair was from a settler family with a reputation developed over several generations of being involved in district agri-political issues, the local church, and the community (Interviewee 824, 2003). Ergstrom (1994) and Patrie (1998), in the context of NGCs, contend that Northern European immigrants to the prairie states of the United States created an environment for farming families to work together in a range of activities associated with their church and local social activities within their communities. They argue that this collaborative approach within the communities translated to economic behaviour based on collective business structures. Wilkinson & Quarter (1996) note this phenomenon in the co-operative activity in the experiences of the Evangeline community in Prince Edward Island, Canada (Wilkinson & Quarter, 1996). Interviewee 691 (2002), a United States academic, in personal communication, also acknowledged a possible link between the prevalence of co-operatives in certain American States and the northern European ethnic background of the settlers.

Booth (2004) believed that the religious and social activities of these early Scandinavian settlers on the co-operative nature of the North American prairie States was a significant antecedent to the success of the co-operative business structure in that region. Booth based this view on his personal observations and discussions with

United States co-operators while on a Western Australian Department of Agriculture study tour. He commented on the way in which local communities, over generations, were used to meeting on Sundays for church services. This coming together in one context, he believed, spilt over into other areas leading to an intertwining of religious, civic, social and economic aspects of members in the community. This, he argued, created a fertile ground in which to continue with the co-operative economic business approach that they brought with them as immigrants at the end of the 19th century. He believed that the passing of generations or the influence of the corporate business structure had not undermined this connection in these communities to the co-operative model. However, Fulton (2001) argues that the explanatory power of Northern European immigrant and religious aspects, while a factor, may have been over played in the literature as a causal element in the formation of agricultural co-operatives in North America.

Despite Fulton's position, Booth (2004) considered that this strong community and religious aspect he observed in co-operators the United States was a factor in Madden's connection with the agricultural co-operative sector. Booth argued that the UFCC Chair's Christian background instilled a strong community ethos in him. Further, the commonality of Christian values and co-operatives values reinforced a connection to the co-operative business structure. This, Booth attributed, was a direct precursor to the UFCC Chair's commitment to the co-operative model and a key element in its subsequent success. Booth believed that the attitude displayed by the Chair was not a common outlook shared by others involved in co-operatives in Australia or by Australians generally. In Booth's view, the connection between a strong community ethos and agricultural co-operatives in the United States was not as observable in Western Australian rural communities and was a factor inhibiting the uptake of the co-operative structure in contemporary Western Australia.

When these were raised with him, the Chair was not familiar with the views put forward by agricultural co-operative observers such as Ergstrom (1994) and Patrie (1998) about a strong co-operative culture emanating from communities with similarly robust religious and social ties. The Chair (Madden, 2003b) acknowledged his personal Christian values but did not consider that these were a major factor in the formation of the UFCC as he was the only practising Christian on the Board of

Directors. However, he believed that co-operative behaviour does seem to be linked with undertaking community deeds. The Chair noted that the similar quality of all Board members was their commitment to and involvement in their local community. He stated that they all shared a 'community mindedness' and were actively involved in local community initiatives and events. The co-operative Board knew each other via these community activities before working as a group to explore options for their farming businesses. This commitment to improving their community, Madden (2003b) stated, motivated and sustained them to form and nurture the co-operative.

The community behaviour displayed by the original five members can be understood as a form of social capital. This enabled them to trust each other prior to commencing discussions about adverse economic issues and the formation of an agricultural co-operative as a strategy to address this problem. This behaviour illustrates Bourdieu's (1986) concept of social capital and how it can be utilised and converted to another form of capital. A clear pathway from the previously existing social capital within the local community to the creation of economic capital can be demonstrated via the UFCC, leading to a form of 'co-operative capital'. The UFCC case study indicates that the presence of social capital within an agricultural community is a precursor to the creation of an agricultural co-operative. The depth of social capital in Western Australian rural communities is a factor influencing a community's capacity to explore the potential of the agricultural co-operative model for economic opportunities.

The non-economic factors explored in the formation of the UFCC and farmer connection to the model are insightful to identifying if an agricultural co-operative can arise as a potential solution in rural communities facing economic difficulties. However, Madden's interpretation of why the model is embraced by farmers is grounded in the economic adversity facing the agricultural industry and particularly the behaviour of corporates in agriculture leading to some form of market failure. These factors, well established in economic agricultural co-operative theory, appear to carry more authority with Madden as the main stimulants for the formation of the UFCC and member connection to the structure. Madden's greater comfort with economic rather than sociological explanations for the formation of the UFCC reflects the dominance of economic theory in contemporary agricultural industry discourse. When recommending the co-operative model as a potential solution to

agricultural communities, the case study reveals that economic language carries greater authority to encourage communities to adopt the co-operative structure. However, an understanding of the sociological factors underpinning the development of an agricultural co-operative cannot be overlooked.

The UFCC as an Expression of a Farmer Initiated Social Movement

Madden's 1990s involvement in a political interest group such as the Rural Action Movement and an agricultural co-operative reflects an historical repetition of the political and economic environment in the period leading up to WWI. As Chapter Four identified, this period also resulted in the concurrent formation of a political interest group and an agricultural co-operative. At a 1914 farmer meeting convened to discuss strategies to address the severe economic conditions confronting farmers, it was agreed that a political interest group, which evolved into the Country Party, would be formed to lobby government on these matters (K. Smith, 1984). At the same meeting, it was also agreed that a separate strategy would be implemented to focus on farmers helping themselves economically and the Westralian Farmers Co-operative was formed (K. Smith, 1984). The political activism and agricultural co-operative activities were to be undertaken as two separate pursuits, which removed the co-operative from agricultural industry political activism, consistent with the co-operative philosophy of political neutrality.

This shared linkage of political and economic action by Western Australian farmers can be viewed as a form of farmer initiated social movement (Craig, 1993; Mooney & Gray, 2002). Analysing the birth of the UFCC as a social movement provides an alternative insight to the motivations for this type of collective action. Craig (1993, p 19) defines a social movement as 'a collective attempt to bring about or resist change in social institutions or to create an entirely new order by non-institutionalised means'. Craig argues that three factors need to be present in a social movement. Firstly, a shared frustration with the existing orders is evident. The farmer meetings of 1914 and the early 1990s, convened to address the economic disadvantage of farmers, illustrate a powerful dissatisfaction with the existing conditions. However, Craig argues that this frustration is insufficient to explain the evolution of a social movement. This leads to the second necessary factor, which is the 'development of a vision or a belief in the possibility of a different state of

affairs, which leads to the articulation of a goal or ideology' (Craig, 1993, p 19). The period leading to the formation of both Westralian Farmers Co-operative and the UFCC co-operative clearly demonstrate Craig's second essential element. Madden and his colleagues mirrored the early agricultural co-operative champions who advocated and promoted an alternative strategy for farmers to help themselves via the co-operative business structure. The passionate language displayed by the UFCC Chair to explain the circumstances facing farmers in the early 1990s illustrates that it was possible to develop strategies to alleviate their situation. Lastly, Craig (1993, p 19) states that the 'emergence of organisations that are devoted to realising the vision or the mission of the social movement' becomes the catalyst in the ongoing expression of the idea and garnering the support of others. The formation of Westralian Farmers Co-operative and the UFCC illustrate this third necessary element, as both new entities were the pivot on which further farmer support for the co-operative business structure was gathered. The decade following both the Westralian Farmers Co-operative and the UFCC reflect rapid and substantial organisational development that reinforced the vision of farmer control and economic power via this alternative approach to business behaviour. The triggers contributing to the formation of the UFCC in the early 1990s replicate many of the factors leading to the establishment of Westralian Farmers Co-operative eighty years earlier and suggest that both co-operatives can be viewed as the vehicle for a farmer initiated social movement.

The UFCC and the Agricultural Co-operative Life Cycle

Craig (1993) alludes to the cyclical nature of an individual agricultural co-operative business, whereby a successful co-operative expands and matures, and in the process may lose its co-operative focus and subsequently convert to a corporate structure. Interestingly, an outcome of this evolutionary life cycle of an agricultural co-operative is that it recreates the negative economic conditions that stimulated the formation of a co-operative business in the first place. This in turn sets up the opportunity for the birth of a new co-operative. This co-operative life cycle can be illustrated by the formation of Westralian Farmers Co-operative, and its sustained growth over several decades, followed by its conversion to Wesfarmers. This conversion then created the necessary conditions for the formation of the UFCC as a

response to some of the negative economic factors for farmers, such as higher costs for farm inputs, emanating from the new corporate Wesfarmers.

The parallels between Westralian Farmers Co-operative and the UFCC reveal patterns of an organisational life cycle for an agricultural co-operative, as well as a broader agricultural co-operative sector life cycle. One version of the life cycle concept would predict that, like the Westralian Farmers Co-operative, the UFCC itself will eventually convert into a corporation. Madden's response to this possible scenario was 'that co-operatives will never die'. While Madden was adamant that the UFCC itself would remain a co-operative business, he indicated that if the UFCC did evolve into a corporation, it would simply create the conditions for the birth of a new agricultural co-operative, hence continuing the rotation of the agricultural co-operative sector life cycle.

Sandford (1955, p 43), writing 30 years before the Wesfarmers conversion, also indirectly acknowledges the concept of a co-operative life cycle when referring to the need for the agricultural industry to learn the lesson of a co-operative business response to economic and social adversity 'over and over again'. However, his comment that 'it is not in times of prosperity but during adversity that forward movements are made; the former is the time for consolidation, and the latter the time to command and exploit new support' (Sandford, 1955, p 43). This suggests that when the agricultural industry is performing well, commitment to and knowledge of the co-operative business model diminishes. Sandford's insight about the need to relearn the co-operative business solution to economic and social adversity is reinforced by the relatively low levels of awareness of the co-operative business model by many actors interviewed for this thesis.

The 'Co-operative Champion'

This account of the UFCC story strongly features the role of the founding Chair as a significant actor in the genesis of the UFCC. The literature, particularly the empirical work, highlights the importance of an individual who assumes the role of 'co-operative champion' to facilitate the evolution of an agricultural co-operative from a good idea into reality. Patrie (1998) identifies a number of critical factors in

the individual who successfully fills this role.¹⁵³ The co-operative champion must come to the fore in the early period of the co-operative's development to move the concept along to an outcome. The individual must be credible and have the ability to command the respect of colleagues. He has to have a willingness to accept a 'servant leadership' role, be able to accept criticism and be uncompensated for his work. A co-operative champion will rarely recuperate the personal costs associated in undertaking this role, nor be rewarded for these efforts. If a champion seeks to capture personal benefits, he will risk being seen as 'corrupt', possibly leading to a decline in member motivation. The champion needs to be a developer rather than a promoter, with sound business sense and judgement. A champion as well needs to build strong communication channels with potential members and a range of external actors. A co-operative champion also has to demonstrate financial stability in his own farm business. Lastly, a co-operative champion requires a sound knowledge of the wider agricultural industry. Bielik (n.d.) comments that the co-operative champion must evolve from within the farmer group. It is not, she argues, a function that can be undertaken by external actors such as agribusiness management consultants or government officers.

Several interviewees commented on the importance of the catalyst role of a key individual - the co-operative champion - in the evolution of Western Australian co-operatives (Booth, 2004; Interviewee 680, 2003; Interviewee 688, 2001; Interviewee 694, 2003; Interviewee 695, 2003). These interviewees recognised a strong and respected leader as a central ingredient to the success of co-operatives such as the UFCC. Conversely, the absence of a co-operative champion as a catalyst has resulted in many co-operative failures in the embryonic phase of development (Booth, 2004).

The inaugural UFCC Chair is an archetype of the co-operative champion. He is one of the few co-operative actors in Western Australia who is known as an advocate of the agricultural co-operative structure outside of his own co-operative. This deep seated passion which motivated Madden to form the RAM and secure a 'better deal for Western Australian farmers' (Madden, 2003b) is also an element in the makeup of a co-operative champion. The UFCC Chair is acknowledged by many

153 Every 'co-operative champion' discussed in the literature or interviewed for this research has been a male.

external actors as one of the critical success factor in the achievements of the UFCC. The intrinsic qualities in the founding Board members, particularly the inaugural Chair, provide some insights into the role of a 'co-operative champion' to translate a vision into reality. The Board nurtured an emergent co-operative into a substantial business in a few years. The Chair strongly supports the philosophical position of co-operative values, particularly in relation to 'one member, one vote' and proportional rebates based on patronage. As a result of this demonstrated commitment to the UFCC, the Chair brings a great deal of credibility to the function of co-operative champion.

Despite Madden's personal role with the UFCC, there was a consensus among these interviewees that the overall Western Australian agricultural co-operative sector lacked 'co-operative champions' to advocate on behalf of the wider co-operative sector. Key co-operative leaders at the beginning of the 20th century with a focus on using the co-operative model as a vehicle to develop the agricultural industry and well-being of farmers, such as Harper and Thompson, appear to be missing from the contemporary Western Australian agricultural co-operative sector. Interviewee 689 (2002), principal of an agribusiness consultancy, argued that a key factor in the lack of co-operative champions in Western Australia is the pressures of modern farming businesses which absorb considerable time and energy of an individual farmer. He reasoned that adopting the role of co-operative champion on behalf of the industry would inevitably diminish a farmer's focus on his or her primary business and therefore threaten its economic viability. This rationale for the lack of co-operative champions points to the dominance of the economic ethos driving modern agriculture. The language and sentiment from State and Commonwealth government agencies reinforces the position that farmers are now business managers and their farms are businesses; Farming cannot be seen primarily as a 'lifestyle'. Agricultural industry associations (Halpin, 1999) and agribusiness advisors (Interviewee 689, 2002) tend to support and reinforce this economic orientation of the agricultural industry. Therefore, farmers who do not direct their full effort to the financial success of their farm business are characterised as 'poor businessmen' (Interviewee 689, 2002) who risk farm failure through their lack of commitment to farm management issues. The dominant ethos of individualism demonstrated by focusing on one's own financial well-being is incompatible with the

notion of working on behalf of industry to undertake the role of co-operative champion.

This contemporary environment in agriculture is a key difference between modern agriculture and the agricultural industry that enabled the first co-operatives to form in Western Australia around the time of the First World War. Clearly, the changed circumstances of modern agriculture limit the capacity of individual farmers who could potentially undertake the role of co-operative champion (Interviewee 689, 2002). This in turn restricts the ability of many agricultural co-operatives to form, grow and succeed in Western Australia. The inability of the agricultural co-operative sector to cultivate a critical mass of co-operative champions is clearly one of the barriers to the wider adoption of the agricultural co-operative model in Western Australia. Despite the drawbacks facing potential co-operative champions, the inaugural UFCC Chair, supported by the founding Board members and their families, was able to undertake this vital function on behalf of other farmers.

Summary and Conclusion

This chapter has canvassed a range of economic and non-economic factors leading to the establishment of the UFCC. Economic adversity in the external agricultural industry environment is clearly a key trigger in the formation of the co-operative. A significant element was a form of market failure in which corporations were extracting high prices from farmers for farm inputs. This is consistent with agricultural economic co-operative theory. Another trigger was economic adversity arising from the implementation of agricultural industry public policy informed by neoclassical economic theory during the 1980s and 1990s. Additionally, farmers were disadvantaged by factors outside of their control, such as the Gulf War and fluctuating exchange rates.

The economic adversity leading to the formation of the UFCC replicates the dominant issue that prompted the formation of Westralian Farmers Co-operative, demonstrating a cyclical pattern in the establishment of agricultural co-operatives. Another historical link between the UFCC and Westralian Farmers Co-operative is the political connection arising from farmer discontent. Both the creation of political interest groups and agricultural co-operatives can be understood in the context of farmer initiated social movements.

The commitment of the founding Board of Directors and their success in recruiting their members is attributed to the deeply embedded folk memory of agricultural co-operatives in Western Australia's broad acre rural communities. This folk memory of the purpose of a co-operative model legitimised the structure as a strategy for the supply of farm inputs. A further feature is the community focus of the founding Directors and their connectedness to their communities. A pre-existing level of trust developed within their social and community interactions enabled them to move onto deep discussions about business and economic issues. The Chair's developing knowledge of co-operative theory reinforced the appropriateness of the co-operative structure for their purpose. The embryonic co-operative was fortunate that additional professional advice about the agricultural co-operative structure was accessible and available. This was partly due to happenstance as the co-operative movement peak body had contracted an accountant with a long history of involvement with agricultural co-operatives and was well connected to an extended 'co-operative familiar' network of professional advisors. This thesis overall has identified that access to and the knowledge base of agribusiness professional advisors about co-operative issues is not as available in contemporary times.

Lastly, the pivotal role of the Chair as a co-operative champion in the development of the UFCC was a critical factor. As identified in Chapter Four in the first wave of agricultural co-operative development in Western Australia, the role of charismatic farmers who can arise from the 'grass roots' and advocate the co-operative business alternative to fellow farmers remains a critical factor in the formation of agricultural co-operatives. Without these co-operative champions acting as instigators, co-operative businesses are unable to establish themselves as alternative sources of co-operative advisory support and knowledge is scarce or non-existent. In the absence of wider institutional support, the subsequent loss of a co-operative champion from an established agricultural co-operative is a contributing factor in it becoming unsustainable as a co-operative in the longer term. The over-dependence on co-operative champions to stimulate agricultural co-operatives in Western Australia highlights the lack of wider institutional frameworks to support agricultural co-operatives.

The birth of the UFCC indicates that the rationale for commencing a co-operative business is multifaceted. These factors are both economic and non-

economic. However, the economic justification is more obvious and carries greater weight in the eyes of most UFCC commentators. While non-economic factors are subtle, acknowledging the role of these intangible elements to the formation of a co-operative is essential in any strategies to present the agricultural co-operative as a potential solution to help confront rural difficulties. A hidden outcome of the success of the UFCC is a re-evaluation of the value of agricultural co-operatives as a business structure. The UFCC clearly demonstrated that an agricultural co-operative is an appropriate response to an industry undergoing restructuring.

This chapter has revealed the astonishing achievements of this twelve year old agricultural co-operative. Chapter Eight analyses the internal dynamics of an agricultural co-operative functioning within a broader economic and political framework that privileges the corporate business structure over the co-operative structure. The chapter explores an evolving undertone in which the future of the UFCC as a co-operative is potentially uncertain.

CHAPTER EIGHT

UFCC as a Mature Co-operative

Introduction

The previous chapter outlined the external circumstances that triggered the formation of the United Farmers Co-operative Company and its significant achievements as an agricultural co-operative over the following decade. This chapter reviews the maturing UFCC, with a particular focus on its internal dynamics. This chapter outlines some recent developments in the UFCC, indicating that the organisation is now behaving differently from its start-up and early evolution phases. The chapter concludes that the co-operative logic within the UFCC, which influenced its initial organisational development, is in danger of being eroded predominantly by internal factors. This may lead to an eventual conversion of the UFCC to a corporation.

The information in the chapter is heavily dependent on the accounts of events relayed in several interviews, particularly those with Madden, as well as information available in the public domain.¹⁵⁴ While the UFCC is the basis of the chapter, the chapter also draws on information from other interviewees to illustrate wider agricultural co-operative organisational behaviour in contemporary Australia.

Co-operative Management Issues

The UFCC case study provides insight into matters relating to employing suitably skilled senior staff in an agricultural co-operative. The following section discusses the implications of importing senior level staff from corporations, determining salary packages for senior staff, and the challenges for agricultural co-

¹⁵⁴ In order to avoid repeatedly attributing information to Madden and other interviewees, I have resolved not to cite them in every instance.

operative Boards in inculcating co-operative values in senior staff to develop appropriate business strategies based on these values.

Selecting a Chief Executive Officer (CEO)

The UFCC Board of Directors appointed the incumbent CEO in early 2002.¹⁵⁵ The Board had clearly experienced a problematical time recruiting and developing the correct mix of CEO skills for the rapidly growing co-operative. In its first ten years, five individuals had occupied the position of Chief Executive Officer.¹⁵⁶ The Board of Directors asked all of them to leave their position, reflecting that as an agricultural co-operative grows in size and is more exposed to the wider business environment and economy, it needs to employ higher calibre management. The high turnover of CEOs suggests that while the UFCC had experienced significant success as an agricultural co-operative in the market place, it also had some challenging internal staff issues.

The first interviews for this thesis focused on the recruitment process for the incumbent CEO. The intensity of discussions with interviewees about the recruitment of a CEO highlights the key role this senior management position plays in an agricultural co-operative and the need to find the right person for the position. The UFCC placed the CEO position with a recruitment agency. Members of the Board of Directors interviewed five short-listed applicants and a subset was asked to attend a second interview. The interview panel identified their preferred applicant (not the person finally appointed to the position) and invited the individual to an evening meal with the full Board. The Board quickly became aware that their selected candidate was not going to fit with the organisational culture of the agricultural co-operative. The Chair contacted the second preferred applicant (the person subsequently appointed to the position) early the next morning to come to a breakfast meeting with the Board. After the meeting, the Chair advised the applicant that he would be contacted within the week. He was offered the job that afternoon.

155 Throughout this discussion, the Chair and CEO are referred to as the Chair and CEO. However, it needs to be recognised that this is a story that evolves over a decade or so and parts of the account refer to periods prior to, or after these individuals held their respective roles. To avoid confusion, the two individuals are referred to by the titles of Chair or CEO even though they may not have been in these positions at a particular time in the narrative.

156 The UFCC Board of Directors did not use the title 'Chief Executive Officer' for all the incumbents managing the co-operative. This discussion employs the term CEO to refer to all individuals who filled this role, despite variations in their official job title.

The newly recruited CEO achieved some very impressive outcomes in the first year of his appointment. These substantially contributed to the UFCC profitability and returns to members. In 2002 the UFCC had returned to members \$6.72 million in rebates in one of the worst years for the agricultural industry as a consequence of severe drought. The CEO had also negotiated \$2.2 million reimbursement from the \$3 million written off previously as a result of a contaminated shipload of chemical.¹⁵⁷ Within the first eight months of his employment, the CEO had also resolved most of the outstanding litigations facing the UFCC.¹⁵⁸ The Chair confirmed the CEO's achievements on behalf of the members. He added that the Board of Directors recognised the CEO's contribution to the financial basis of the co-operative with a substantial enhancement of the CEO compensation package on the first anniversary of his appointment.¹⁵⁹

Importing Corporate Staff

The CEO recruited two former colleagues from the corporate sector in his first twelve months at the UFCC, resulting in three new senior level corporate sector managers working in the co-operative in a relatively short period. The Chair had commented on how well these new recruits had adapted to the co-operative business structure and believed that they now understood the values underpinning the organisation. This was attributed to dedicated professional development of UFCC staff about the co-operative values and business model.

The Chair explained this co-operative journey for the new senior management recruits by recounting a story concerning the ability of one of them to adapt to the co-operative business ethos.¹⁶⁰ The new employee had a long and 'hard nosed' corporate background, and from the Chair's comments appeared to be perplexed by the co-operative model approach to business when first appointed. The new manager demonstrated this confusion about co-operative business objectives by commenting to the Chair 'that if the UFCC continues to grow at this rate we will be

157 The UFCC had written off approximately \$3 million when a container of fertiliser was rejected in by Australian quarantine in the late 1990s on the basis of contamination. The source of contamination was the supplier from Israel. Despite hiring lawyers in several countries the UFCC could not get reimbursement and had resigned itself to the loss, advising the membership that it had been written off. The new CEO successfully negotiated a \$2.2 million reimbursement comprising cash and replacement fertiliser to be delivered over the following two years.

158 At the time of the selection for the CEO, the co-operative was involved in seven litigations, one of which involved an industrial relations unfair dismissal case with the immediate past CEO.

159 Compensation packages for agricultural co-operative senior management are discussed below.

160 This episode does not refer to the CEO.

able to list on the Australian Stock Exchange in a year'. The comment reflected the manager's eagerness to impress the Chair as well as his uninformed belief that this would be a highly desirable outcome for the UFCC. The Chair stated that he made it very clear to the manager that the future UFCC business strategy was as a co-operative based on co-operative principles and listing on the stock exchange would be the last option for the UFCC. The Chair maintained that he had reinforced to the manager that it was precisely because of the co-operative business strategy that the UFCC had achieved such long-term financial success. The Chair believed that the new manager had evolved well into the co-operative ethos and understood the purpose of the UFCC as a mechanism to benefit farmers' own businesses, rather than as an entity in its own right.

The Chair also stated that he was very impressed with the way in which the CEO adapted from the corporate world to the co-operative environment and the specialist management qualities he brought to the UFCC. At the time of the interviews in late 2002 and early 2003, the relationship between the CEO and the Chair appeared to be very positive. The CEO gave the impression of developing a good understanding of co-operative philosophy and business strategy by participating in professional development on co-operative values and encouraging his staff to also build their understanding. The Chair and the CEO seemed to share optimism for the future of the UFCC as an agricultural co-operative that adhered to the co-operative principles.

These vignettes demonstrate that the UFCC, like most other agricultural co-operatives in Australia, is forced to recruit senior staff from outside the co-operative movement. This situation reflects a lack of co-operative business and management training at the undergraduate or graduate level in Australian universities. This in turn deprives the agricultural co-operative sector of appropriately trained management. The experience of the UFCC suggests that corporate staff can be imported from the corporate sector into commercial co-operatives on the proviso that they are intensely professionally developed in the co-operative values. If this can successfully occur, the lack of specific training for co-operative managers at tertiary level is not necessarily a barrier to the agricultural co-operative sector in Western Australia as the co-operative philosophy can be grafted onto managers via professional

development after technical managerial competence is gained in standard commerce and business degrees.

While the UFCC Chair acknowledged that this was not optimal, in the absence of a co-operative management training facility in Australia to provide a pool of potential co-operative management staff, he was comfortable with the recruitment of corporate sector staff into the UFCC. He rationalised this on the basis that he viewed a co-operative as essentially a business and, in the same way that a corporate needs to adopt business tools, a co-operative can also utilise these technical and managerial strategies. He argued that in common with a corporate, a co-operative needed to implement strategic planning, financial and accounting management, human resource management, marketing, operational management strategies and governance policies and procedures. The Chair considered that the corporate background of the executive management team brought a range of skills and strategies that the UFCC could utilise to its benefit (Madden, 2003b). The Chair stated that a staff member with an ability to read a balance sheet was of more use to the co-operative than an employee with an understanding of co-operative principles but with limited technical business skills. This strategy, he acknowledged, can only work in an environment in which the Board of Directors was strongly committed to the co-operative principles and understood their role as Directors of a co-operative business. At the time of the interviews, the Chair believed these values were solidly embedded within the Board.

The UFCC experience in early 2003 with the importation of corporate staff is contrary to the picture painted by Craig (1993) of corporate managers in co-operative positions and their influence over the future strategies of the co-operative. Craig (1993) highlights co-operative leadership within both the Board of Directors and management as one of the factors contributing to the failure of co-operatives remaining as co-operative businesses. He attributes this potential for co-operative failure to a conflict between co-operative logic and the logic of bureaucratic organisations such as IOFs. Craig argues that a CEO needs to understand and balance the twin co-operative objectives of the economic and the democratic in managing the organisation. Craig maintains that management trained in the dominant capitalist corporate paradigm struggle to understand the co-operative philosophy. He contends that the CEO often becomes the instrument by which a co-

operative starts the process towards becoming a corporation by focusing on the economic and losing its 'democratic' qualities. As a result, the CEO applies management principles compatible with corporations and experiences frustration with the co-operative's inability to conform to the rules and norms of an IOF. Due to the imported CEO's lack of knowledge and understanding of the unique philosophy underpinning co-operative structures, the CEO can feel discouraged when the Board chides him or her for being too corporate (Craig, 1993). In response, the CEO then tries even harder to please the Board by applying other corporate logic strategies, inadvertently setting up a cycle of co-operative decline (Craig, 1993).

Craig (1993) also notes that the CEO, in a position of influence and authority, may also subtly encourage the Board to move towards corporate strategies. In an environment where the Board may not be fully conversant with and committed to co-operative principles, a CEO can exude considerable authority (Craig, 1993). The CEO can therefore eventually become an instrument of a co-operative converting to a corporation, arguing that this is the only way to achieve organisational growth and increased profits. Additionally, Craig comments, the CEO is supported in this strategy by external professionals, such as solicitors, accountants, financiers and management advisors who also lack understanding of co-operative culture and operate within the rules of corporate business structures. Collectively, these external advisors tend to present the co-operative business structure as substandard compared with the corporate structure.

The scenario outlined by Craig, whereby a corporate manager sits uncomfortably in a co-operative management role and becomes an instrument of corporatisation, did not appear to apply, at the time of the 2003 interviews, to the UFCC. The UFCC recruitment and professional development of imported corporate staff suggested that both the Board and the new staff operated under Craig's co-operative logic paradigm. However, Craig's insight into the influence of corporate trained management in a co-operative's evolution may prove to be correct for the UFCC. The ensuing events in early 2004, outlined later in the chapter, suggest that the Chair was not as persuasive as he thought in influencing senior management about the merits of co-operative values in guiding long-term business strategies for the UFCC. The unfolding UFCC case study supports Craig's position that an

agricultural co-operative is vulnerable to the internalisation of corporate ideology and practices from management that destabilises co-operative logic.

Compensation Strategies for Agricultural Co-operative CEOs

The CEO accepted the UFCC position although it was a significant salary drop from his former corporate sector remuneration.¹⁶¹ The Australian agricultural industry has a reputation for paying low wages for on-farm employees and its industry associations (Rural Training Council of Australia, 2000). Based on comments from some interviewees, this appears to also be a feature with agricultural co-operative manager salary levels (Interviewee 694, 2003; Interviewee 695, 2003). This phenomenon in which agricultural co-operatives lag behind in compensation levels for managers compared with managers of comparable sized IOFs is also noted in the United States (United States Department of Agriculture, 2002). Interviewee 654 (2003) thought that farmers in Australia did not really understand the need for appropriate compensation for the managers of agribusinesses, including the CEOs of agricultural co-operatives, despite these organisations being comparable to those in the corporate sector and deserving similar salary packages. He attributed this tendency towards lower compensation levels to the unpredictable nature of farmers' income, resulting from international price fluctuations for commodities and variable climatic conditions. This situation, he maintained, set up some resentment among farmers when the CEO continued to receive a consistent income paid from the co-operative's activities, regardless of the fluctuations in the farmers' income and the financial viability of the agricultural co-operative (Interviewee 654, 2003). Therefore, offering lower salaries to staff employed in agricultural industry associations, peak bodies and co-operatives helped off-set this resentment by farmers towards employees who received stable incomes regardless of the economic well-being of the agricultural industry.

Interviewees identified strategies to supplement agricultural co-operative salary packages to overcome the compensation differential between the CEOs of corporations and agricultural co-operatives. One strategy was conferring bonuses for achievement of certain benchmarks. According to Interviewee 650 (2003), the UFCC Board of Directors offered bonuses to executive management for

161 After many years working overseas, the UFCC CEO was prepared to accept a lower compensation package in exchange for the family and lifestyle benefits of residing permanently in Perth.

‘achievement of performance in excess of expectations’. In 2002, the UFCC Board conferred both a bonus and a significant salary package increase on its CEO at the first anniversary of his employment in recognition of his input to the co-operative’s profitability (Madden, 2003b).

The use of bonuses to reward the CEO suggests that the UFCC Board had a mechanism to objectively measure the CEO’s performance. The Board of a publicly listed corporation, with its primary focus on maximising shareholder profitability, can use its Australian Stock Exchange share price as an objective ‘measure’ by which to reward CEO competence via bonuses. However, an agricultural co-operative is a complex organisation, often with a multiplicity of goals, some of which can be contradictory (Craig, 1993; Mooney & Gray, 2002). To illustrate, this conflict arises in relation to the twin UFCC objectives of low cost fertiliser supply and high member rebates. To achieve high rebates, the UFCC has to charge as high a price as possible for the product it imports in order to maximise the profit it makes on behalf of its members and can distribute back to them as rebates. However, the UFCC also has an objective of supplying the product at the lowest price possible to its members in order to reduce their input costs and as a result contribute to the financial profitability of their individual farm businesses. These objectives are contradictory and appear as of equal value or importance. A good understanding of co-operative principles helps prioritise these objectives and minimise the conflict. The UFCC Chair frequently and clearly stated that the first objective of the UFCC was low cost supply to facilitate the profitability of member farm businesses. Rebates were therefore a lesser objective. However, Johnson (2005, p 1) recognised that in the UFCC ‘Traditionally, the key performance indicator - often the only performance indicator - considered by members has been the annual rebate’.

These contradictory co-operative objectives can make it difficult to apply performance measures to determine CEO compensation bonuses. The annual rebate is the more observable indicator by which to measure the performance of an agricultural co-operative and hence evaluate the performance of the CEO. The concern with applying an ‘objective’ criterion of UFCC ‘profitability’ as measured by rebates as a trigger for a CEO bonus is that it focuses the Board, the members and the CEO on the lesser of the UFCC’s co-operative objectives of rebates, rather than low cost supply. It reinforces a corporate mindset about ‘profitability’ on the co-

operative that potentially erodes the co-operative logic. Further, it inadvertently trains co-operative members to assess the performance of the co-operative on the basis of how much rebate is received each year, diverting their focus from the true purpose of the co-operative on low cost supply as a strategy to maximise returns to the family farm. Bonuses, particularly those based on annual rebates, therefore, can be a distracting and damaging mechanism by which to reward agricultural co-operative CEO performance.

The CEO of another co-operative identified an alternative to the bonus strategy to supplement agricultural co-operative CEO salary levels. He reasoned that reward for effort should be in the form of issuing shares in the co-operative business to management (Interviewee 654, 2003). This, he argued, was an incentive to co-operative management to ensure that 'we [the Board of Directors and senior management staff] are all rowing in the same direction' (Interviewee 654, 2003). However, this strategy is contrary to co-operative principles in which the benefits of the co-operative should only accrue to the members (Craig, 1993). By issuing shares to management, a portion of co-operative 'profit' is diverted away from the membership to management. This potentially sets up a conflict situation within the Board by forcing it to direct a percentage of co-operative surplus to management shareholders, who are essentially investors, and the balance to co-operative members.

Interviewee 669 (2003) presented a third option for agricultural co-operative CEO salary packages which forgoes performance incentives such as bonuses and share allocations. He was not self-conscious about acknowledging that the CEO of a co-operative needed to be appropriately compensated for their contribution to the financial viability of the co-operative, at a similar level to a comparable sized corporation. He claimed to be personally satisfied with his salary package, despite the lack of performance incentives to enhance his base salary. This 'fair and reasonable' compensation strategy enabled the CEO to concentrate on core business, as it removed the potential for a CEO's self-focused distraction to develop supplementary strategies such as bonuses or share allocations to boost an inadequate base level compensation package.

Interviewee comments on agricultural co-operative compensation packages demonstrate a need for Board of Directors to be sensitive to the messages they covertly convey to the wider agribusiness industry when establishing salary packages

for management staff. Further, interviewee insights and the literature suggest that performance incentives can be counter-productive for agricultural co-operative CEOs as they can potentially distract CEOs from core co-operative objectives.

The Relationship Between the Board and the CEO

A former UFCC Director, speaking generally rather than specifically about the UFCC, considered that the most significant issue for a co-operative was the dynamics between the management and the Board (Interviewee 660, 2002). In his view, he thought that management tended to dominate an agricultural co-operative unless there was a strong and knowledgeable Board of Directors to provide checks and balances on the management team. In his opinion, management had a vested interest in shifting the power balance in their favour. An alternative position is that the CEO accepts the authority of the Board and does not exploit a situation to assume greater power or authority (Interviewee 650, 2003). Interviewee 669 (2003), speaking as a former co-operative business CEO, argued that a co-operative needs a strong relationship between the Board and the CEO, suggesting a joint or collective power balance between the two functions. Three views on the power balance in the relationship between the CEO and the Board of Directors are evident - that the CEO seeks to dominate the Board (Interviewee 660, 2002); that the Board controls and directs the CEO (Interviewee 650, 2003); or there is a strong and balanced relationship between the two (Interviewee 669, 2003).

The comments by Interviewee 660 (2002) that the management of co-operative organisations will seek to manoeuvre themselves into a powerful and influential position are consistent with empirical and theoretical literature on co-operative business structures. Craig (1993) argues that agricultural co-operative CEOs tend to exert an influence over the Board of Directors. Further, due to the corporate background of CEOs, this influence appears to encourage co-operatives to evolve in the direction of converting to a corporation (Craig, 1993). Interviewee 660 (2002), illustrated this trend by the activities of the CBH to restructure as a corporation, a topical agri-political issue at the time. He believed that the campaign

by the CBH Board of Directors to convert to a corporation was in reality the result of management pressure and influence on the Board.¹⁶²

Interviewee 660 (2002), as an agricultural co-operative Board Director, argued that it was unacceptable for management to influence the Board in the direction of a structural change to a corporation. He unequivocally put the responsibility on co-operative CEOs and management to understand that the co-operative model is the best structure for producers to collectively gain the greatest financial return for their commodity and that management must work to achieve this outcome (Interviewee 660, 2002). Following on from this logic, he maintained that a conversion of a co-operative to a corporation is actually a demonstration of the failure of the co-operative CEO and Board to do the best by its members. Therefore, he reasoned, a co-operative that started to entertain ideas of becoming a corporate showed a flaw in management and Board understanding of the co-operative model (Interviewee 660, 2002).

The unfolding UFCC case study suggests that in the agricultural co-operative business, problems with the CEO or Board can be eventually connected back to their lack of understanding of the co-operative paradigm or logic. At the time of the interviews with actors associated with the UFCC, there was scant indication of a lack of commitment to the co-operative principles by management or within the UFCC Board of Directors. However, the events leading up to the 2004 AGM suggest that this commitment was not as deeply embedded as required in an agricultural co-operative to quarantine it from potential debates about its future structure.

Farmer Board Concept of a Working Week

The interviews with actors associated with agricultural co-operatives highlighted the rapid turnover in the CEOs of agricultural co-operatives. This was attributed to the phenomenon of 'burn out', often resulting from the demanding nature of working with farmer Boards (Interviewee 654, 2003; Interviewee 668, 2001; Interviewee 694, 2003; Interviewee 949, 2003). According to Interviewee 694

162 The 2002 drive to convert CBH to a company business structure and possibly list on the stock exchange was not successful. However the retiring CBH Chair, Watson, publicly raised the issue again in early 2004, arguing that the CBH needed to change its co-operative structure to increase CBH's market value and face future challenges in a rapidly consolidating national storage and handling industry (Slater, 2004). In late 2005, the CBH Board accepted member dissatisfaction with this proposed direction and publicly acknowledged that it would not pursue corporatisation and public listing, unless overwhelmingly initiated by members at some point in the future (Bolt, 2005b).

(2003), several Western Australian agricultural co-operatives had lost CEOs as a result of a real or perceived expectation that they were available 24 hours a day to Board members. The culture of agricultural co-operatives appears to manoeuvre CEOs into a position in which it is difficult for them to put a boundary around their personal accessibility to their Chair and individual Directors on the Board.

The interview process described earlier to recruit the UFCC CEO hints at this. When the Board of Directors realised at a Saturday night dinner that the preferred applicant for the CEO position was not suitable, Madden (2003b) contacted the second preferred applicant very early the following morning requesting that he come to a breakfast meeting. This incident reveals a Board of Directors that finds it difficult to differentiate between an individual's private and work time. Interviewee 694 (2003) also illustrated this expectation of high level CEO accessibility by describing an episode in which a Chair contacted his CEO at 3.00am to discuss an issue concerning the co-operative. Interviewee 694 (2003), based on personal experience, portrayed working with farmers and farmer Boards as a very intense activity. Helou (2002), an agricultural co-operative CEO recruited from the corporate sector, commented on an 'intimacy' in the relationship between the Chair, the Board, the CEO and co-operative members that he had not experienced when he was in the corporate sector. He sought to illustrate this intimacy by drawing a parallel with a shareholder of a large company listed on the Australian Stock Exchange who would never know if there was an administrative problem at its head office. However, if there was a problem in an agricultural co-operative head office, a member would be sure to know about it and get onto the CEO immediately, regardless of the time of the day or night.

Interviewee 669 (2003) presented a different perspective on this issue of accessibility. He argued that the agricultural co-operative CEO has to accept greater interaction with members and recognise that it is the members' right to be involved with their co-operative. It appears that accessibility to a farmer Board outside standard working hours depends on the personal views and disposition of the CEO. However, Interviewee 694 (2003) believed that these situations would not be tolerated in a corporation. He also commented that it illustrates the way that those in the agricultural industry conduct business, which, in his opinion, is not very professionally. He added that agricultural co-operative Boards need to learn about

the norms of modern management, including the appropriateness of contact with management outside working hours.

The tendency for a mismatch between the approach of an agricultural co-operative Board of Directors to 'standard working hours' and that of a co-operative employee can be explained by the traditional working patterns found in farming. Farming businesses and family residences are frequently co-located creating an opportunity to work on the farm business outside traditional work hours. Agricultural work often requires intense spurts of activity that does not respect the clock. Additionally, an agricultural co-operative is a creature of passion, which requires from its proponents the level of commitment, and attention that is similar to the demands of a young child. This enthusiasm and dedication to the co-operative in the Board of Directors is a key ingredient to the development of the co-operative business. However, a paid employee, no matter how committed they are to the values underpinning the co-operative organisation, cannot be expected to share this interest to the same depth, particularly if they have to balance personal commitments as well.

This level of interaction by members with their agricultural co-operative can also be viewed as a positive strength of the co-operative. Agricultural co-operative members are demonstrating that they identify strongly with their co-operative. The issue is how to manage this level of commitment and perhaps channelling it constructively. It becomes counterproductive if this connectedness to the local community overwhelms co-operative management and staff, leading to burn out and high staff turnover. The literature does not expose the negative aspects of being employed in an agricultural co-operative in such a personal manner as identified in these interviews.

Perceptions of Agricultural Co-operatives by External Actors

The previous section discussed issues related to the management of the UFCC, particularly the central role that the Chair, the Board of Directors and the CEO play in the organisation. This section explores the attitudes of external actors from the corporate and agribusiness sector about the agricultural co-operative model. Key themes are perceptions by individuals from the corporate sector of the

agricultural co-operative as a business structure and work environment, and the lack of professionalism of agricultural co-operative management and Board of Directors.

Stereotyping of the Agricultural Co-operative Business Model

As discussed above, the UFCC imported new management staff from the corporate sector. Interviewee 650 (2003) commented that the new recruits expressed a concern that they would not have enough work to do in a co-operative and therefore be insufficiently stimulated. The comment reflects the lack of knowledge by corporate actors about the co-operative structure as a commercial entity. Interviewee 650 (2003) acknowledged that working in a co-operative was not a 'normal' business, as management in agricultural co-operative has to balance a broader range of interests than just the financial success of the organisation, however, he reassured the potential recruits that the UFCC was a highly commercially oriented work environment well suited to their skills. Further, Interviewee 650 (2003) argued that while an agricultural co-operative deviates from the corporate norm, it remains a 'hard edged' commercially focused organisation operating according to the realities of the market economy. According to Interviewee 650 (2003), the new recruits had subsequently found the co-operative work environment very challenging and stimulating and as a result of their experiences at the UFCC, had re-evaluated their initial perceptions of a co-operative as a 'soft' business.

A representative from a bank with an agribusiness focus (Interviewee 694, 2003) observed that agricultural co-operatives tend to attract two types of CEOs. Firstly, he maintained, young CEOs work in an agricultural co-operative for a few years with the objective of developing their management expertise and when an opportunity arises, move into senior positions in the corporate world. For this group, he believed that the agricultural co-operative CEO role is perceived as a stepping stone in their corporate career, rather than a goal in itself. The other group, in his opinion, consisted of older CEOs who view the agricultural co-operative position as an 'end of career' role prior to retirement, as it is perceived as a less demanding role than its comparable counterpart in the corporate sector.

This view suggests that the position of CEO of an agricultural co-operative is not a highly sought after career move. By implication, mid-career agricultural co-operative CEOs have not been able to secure more prestigious and career enhancing

positions in the corporate sector. There is also an implication in his comment that indicates that agricultural co-operatives can only attract 'second best' applicants to the role of CEO. A former CEO (Interviewee 654, 2003) of another Western Australian agricultural co-operative confirmed this sentiment when he remarked that corporate sector colleagues and social contacts sympathised with him for being the CEO of an agricultural co-operative and working with farmers. He believed that his colleagues viewed the position of CEO of a co-operative as a 'come down' and that it lacked the prestige of a similar position in a company.

The Agricultural Co-operative as an Outdated Business Model

The views and experiences of Interviewee 694 (2003) and Interviewee 654 (2003) suggest that many in the corporate sector perceive agricultural co-operatives as staid and out-of-date business structures which are protected from the harsh demands of business and cannot function in the market economy. By implication, agricultural co-operative CEOs therefore have limited management skills and would not succeed in the corporate environment. Indeed, one interviewee stated that some agricultural co-operatives were run like 'sheltered workshops' (Interviewee 694, 2003). Discussions with Booth (2004) indicate that some co-operatives do indeed function in this way and therefore the reputation was not undeserved. According to Booth, it is anticipated that these co-operatives will close or be sold as for-profit businesses when the current management retires (Booth, 2004).

The UFCC experience, however, demonstrates that agricultural co-operatives in Western Australia can only remain economically viable if they adopt the techniques of modern management and understand that they are functioning within a market economy. Therefore, highly commercial agricultural co-operatives are required to recruit senior management staff of very high calibre. These staff are clearly not 'second best' employees. However, as indicated previously, the recruitment of senior level staff from the corporate sector requires a complementary professional development strategy to establish the appropriate philosophical orientation of the organisation and its strategic direction.

Interviewee 654 (2003) indicated that another commonly held perception of agricultural co-operatives by corporate and agribusiness actors is that co-operatives do not appeal to 'successful' farmers. According to this view, 'successful' farmers are those who operate commercially profitable farm businesses and have linked into

the wider agricultural supply chain as independent agents. As successful farmers, they do not need the collective approach of agricultural co-operatives. Consequently, agricultural co-operatives appeal to the less successful or 'problem' farmers in the industry and are effectively only a 'safety net'. Associated with this view is the perception of some corporate actors that agricultural co-operatives are an old-fashioned 'welfare' strategy that does not sit well in a modern market economy (Interviewee 689, 2002).

However, the UFCC experience does not fit these stereotypes of a co-operative as a safety net or welfare mechanism for unsuccessful farmers. The UFCC has over 3,000 grains industry members, representing approximately 50 per cent of Western Australia's grain growers. Collectively Western Australian farmers produce about one third of Australia's grain crop (Western Australian Department of Agriculture, 2001b). It would be difficult to sustain an argument that these 3,000 grain farmers constitute the agricultural industry's 'welfare' farmers. On the contrary, Madden (2003b) argues that these farmers are in fact deliberately choosing the UFCC to manage a segment of their farm business as part of an overall farm management strategy, reflecting an opposing view that these members are very business oriented and successful farmers. According to Madden (2003b), the farmers with business management and economics training are the ones who make informed decisions about the economic benefits of the agricultural co-operative model for the financial development of their farm businesses and are deliberately choosing to become members of the UFCC as a strategy to achieve this.

An interviewee raised a contradiction in perceptions about the agricultural co-operative model often held by external actors (Interviewee 654, 2003). On the one hand, he argued that the agricultural co-operative model received a lot of criticism from those not closely associated with them, because 'everyone knows about agricultural co-operatives, particularly the problems of co-operatives' (Interviewee 654, 2003). However, in exploring his comments further, it became clear that this 'knowing' was actually a myth about agricultural co-operatives based on misinformation rather than the reality of what the co-operative model actually provides for its members. Ironically, in other situations, this interviewee found that being associated with an agricultural co-operative in commercial situations was an advantage as external actors regarded co-operatives as reputable and trustworthy

organisations. This reveals an interesting paradox about the perceptions of the agricultural co-operative model. On the other hand, these sentiments by third parties reveal the perception of co-operatives having a range of problems, yet concurrently co-operatives are also perceived by third parties as reliable and honourable organisations with which to do business.

Agricultural Co-operative Business Strategy

This section discusses a range of issues related to the UFCC business strategy, such as capital raising, share allocations and marketing. It was apparent at the time of the research interviews that the UFCC was firmly committed to co-operative principles and that its focus was to ensure the best return for its members rather than to be the biggest player in the market. However, some indications have appeared that suggest that there is a difference in interpretation among actors associated with the UFCC about the meaning of the co-operative principles and the most appropriate strategies for the co-operative to adopt. Unlike a company which focuses on profit maximisation, the UFCC business strategy is based around co-operative principles. Tensions between business strategy for a co-operative and corporate business strategy have become evident as the co-operative matures.

Co-operative Principles at UFCC

The 2003 version of the United Farmers Co-operative website conveyed a strong sense that farmers needed to collaborate via co-operative businesses to ensure that corporate organisations did not ‘take what little profit there is left in the industry’ (United Farmers Co-operative Company Webpage, n.d.).¹⁶³ The ‘strict adherence to the co-operative principles’, particularly farmer ownership and control via the co-operative structure, was an important message communicated by the webpage (United Farmers Co-operative Company Webpage, n.d.). The website emphasised the benefit of the agricultural co-operative model for rural Western Australia communities as a strategy to retard rural decline, emphasising that the significant shareholder rebates represented funds that have been retained within rural communities due to the presence of an agricultural co-operative (United Farmers Co-

163 The UFCC webpage was upgraded in 2003 and some of the earlier pages referred to in this chapter were subsequently removed from the website.

operative Company Webpage, n.d.). The UFCC has publicly retained these sentiments in subsequent upgrades of its webpage.

The messages on the UFCC website strongly indicated that the organisation understood the co-operative principles and the point of difference resulting from adopting a co-operative rather than company structure within an agricultural industry context. The webpage also hinted that it was important that current and potential members understood the benefits of the co-operative model for the agricultural industry and their local communities. These sentiments are consistent with the literature on the benefits of co-operatives in rural communities and their ability to reduce exposure to the profit driven behaviours of companies (see, for example, Mooney & Gray, 2002; Torgerson et al., 1997).

The Chair attributed the success of the UFCC during its first decade to the relevance and strength of the co-operative structure in the Western Australian agricultural industry. The Chair conveyed in the interviews that he was adamant that the rationale of the UFCC was to increase the financial profitability of its shareholders as farmers, not as investors. He continued to maintain this view in late 2003 when he stated that ‘the [UFCC] philosophy is still to maximise returns to the family farm - not [for the UFCC itself] to make a profit’ (Lee, 2003). The Chair quite rightly argued that the UFCC was not an investment vehicle for its shareholders and therefore it should not view shareholder members as investors (Madden cited in Lee, 2003). However, as discussed above, the management and the Board of Director can be conflicted by their perception of the twin objectives of low cost supply and high rebates.¹⁶⁴ A shift to privileging rebates over low cost supply inappropriately represents the UFCC shareholders as investors, akin to the purpose of a company. Consequently, the objective of being a low cost supplier aligned to the co-operative principles becomes jeopardised.

A second conflict in objectives for the Board and management team is in balancing the twin objectives of the economic and the democratic (Craig, 1993), particularly with respect to co-operative equity principles. This conflict was illustrated by an episode in which some members who bought substantially large

164 This conflict in objectives is reflected in the following statement ‘the focus on rebate levels creates a “Catch 22” situation for our management team This directly conflicts with the traditional goal of our Co-operative - to achieve the lowest possible prices for our members’ (Johnson, 2005).

amounts of product from the UFCC requested a bulk discount (Interviewee 650 2003). These members argued that if they bought in bulk from a corporation they would be able to receive a discount, and could not appreciate why the UFCC did not offer the same benefit (Interviewee 650 2003). Management trained in the corporate sector can understand the rationale behind this argument of discounts for bulk purchases. A corporate organisation is able to develop different incentive packages to engender loyalty from customers, leading to greater organisational profitability. Management becomes the vehicle for promoting these types of corporate strategies and encouraging the Board to implement them (Craig, 1993). However, the co-operative principles dictate that the UFCC cannot discriminate amongst its membership in its pricing strategy. Further, all product is sold at cost, regardless of how much is purchased by an individual member. By adhering to its co-operative principles and not offering bulk discounts, the UFCC received some dissension from a few members (Interviewee 650 2003).¹⁶⁵

Agricultural economists, such as Staatz (1987), have used these conflicts in co-operative goals to illustrate the shortcomings of the co-operative model when compared to an IOF. Craig (1993) and Mooney and Gray (2002) also acknowledge the conflicting nature of co-operative objectives, but address it from a different perspective. Mooney and Gray (2002) argue that the conflicting objectives in a co-operative business in fact stimulate innovation in the co-operative. They contend that the co-operative objectives force the Board and management to think laterally. This they argue actually inspires rigour and vitality in the co-operative, leading to innovative solutions and approaches.

UFCC Business Strategy and Philosophy

The UFCC webpage stated that the UFCC philosophy was:

To promote and advance the family farm as a viable long-term business unit by engaging in commercial activities which balances the financial objectives of the organisation with the needs and expectations of its shareholders. (United Farmers Co-operative Company Webpage, n.d.)

165 In addition to this story reflecting a lack of awareness of co-operative principles by some elements of the management team, it also demonstrates that some UFCC members also did not understand the basic difference between an agricultural co-operative and an IOF. This reinforces a perception that agricultural co-operative members tend to adopt an agricultural co-operative structure for pragmatic rather than values based reasons.

Following from this the UFCC webpage maintained that its objectives were:

- To increase farm operating margins of farmer shareholders.
- To maintain financial strength and independence.
- To remain farmer owned and controlled.¹⁶⁶

Lastly, the UFCC webpage identified that its core business was supplying fertiliser to its membership (United Farmers Co-operative Company Webpage, n.d.). Interviewee 650 (2003) considered that the UFCC co-operative business strategy comprised three components. Firstly, he maintained that the UFCC's core philosophy was based on the co-operative principles. The UFCC webpage contained significant information on the co-operative principles but does not actually state this. Secondly, the core mission, he stated, was to reduce costs of farm inputs to increase profitability of farm outputs. This is consistent with the sentiment of the UFCC philosophy as outlined on the webpage. Lastly, he argued that the UFCC core business, as a supply co-operative, was the logistics business. This interpretation differed from that stated on the UFCC webpage of low cost supply of agricultural chemicals and fertiliser.

As Interviewee 650 (2003) considered that the UFCC was in the logistics business, he argued that it was a natural extension for the co-operative to enter the grain marketing business, in which the UFCC would identify the best priced markets for members' grain. In his view, it was still a logistics activity and therefore consistent with the UFCC core business strategy (Interviewee 650, 2003). He believed that the addition of grain marketing to the UFCC's supply business was essentially just a reversal of the input process. He argued that it called upon many of the same logistics, networks and relationships and skills that the UFCC had already developed.

Consistent with this view that the UFCC was in the logistics business, the UFCC Board of Directors subsequently developed a proposal for a marketing arm to compete with the former single desk marketer, AWB Ltd, which had been privatised in 1999. In 2003, the UFCC presented a 'road show' in rural areas to its members to

¹⁶⁶ These statements are from the 2003 version of the UFCC webpage. The UFCC statements on its philosophy and objectives did not include the terms 'co-operative' or 'co-operative principles'. The webpage, in other sections, contained detailed information on the co-operative business structure, principles and history (United Farmers Co-operative Company Webpage, n.d.).

ascertain the level of interest in the concept. According to Interviewee 650 (2003), the country tour demonstrated considerable farmer disenchantment with AWB Ltd and that farmers were interested in the proposed UFCC strategy because it offered an alternative marketing option for them. The UFCC website confirmed that it pursued this strategy with the introduction of a grains division. This division presents 'a range of grain, pulse and oilseed marketing options to its shareholders' by offering a mix of Wheat Pooling and Cash trading options (United Farmers Co-operative Company Webpage, n.d.).

This backwards and forwards logistics strategy represents a significant diversion from the original UFCC objective to lower the price of farm inputs to its members by sourcing agricultural supplies and providing them to members at near cost (Madden, 2003a). However, Interviewee 650, (2003) argued that the grains marketing function of the UFCC could meet the second part of the UFCC objective of increasing the members' return for farm-gate produce prices by selling members' commodities at higher prices than achieved by the current market processes. Madden (2003b) argued that these functions are two different business activities that could cause the successful supply co-operative to lose its momentum in its area of expertise. Co-operative theory suggests that an agricultural co-operative is formed to address a specific need such as economic adversity (Cobia, 1989). The UFCC corrected a form of market failure via the 'competitive yardstick' mechanism by importing and selling fertiliser at a lower price than the main supplier. Deviating from this objective into another activity, which does not necessarily require a co-operative structure to perform the function, may threaten the organisation's primary function of low cost supply and hence its future as a co-operative (Craig, 1993).

After entering the grain marketing area, the UFCC continued to expand its range of goods and services to members by offering crop nutrition and protection (insurance), as well as wool marketing services (United Farmers Co-operative Company Webpage, n.d). The evolving direction of the UFCC business strategy is discussed further in the context of the 2004 AGM.

Capital Raising Strategies

The International Labour Office (2001) notes that one of the commonly identified disadvantages with the co-operative structure is the problem of raising

sufficient capital or funds. Capital raising is a perennial issue in agricultural co-operative literature and is often quoted by commentators as one of the most significant shortcomings for the model (see, for example, Greenwood, 1999; Langdon, 1991). They argue that the lack of available equity, combined with the relatively small 'return on investment' compared with for-profit agribusiness firms, limits the agricultural co-operative's ability to be competitive. This identified weakness in the co-operative structure is attributed to the co-operative principle of 'one member, one vote' in which a member's financial contribution to the co-operative is not rewarded via proportionally weighted voting power. In contrast, the larger a shareholder's financial input to a corporation, the greater voting rights the shareholder enjoys. Further, a co-operative member's individual contribution will not result in meaningful dividends on this capital, as the purpose of the co-operative is not an investment vehicle for individual members, but rather to provide a collective benefit or service to its membership. The considered outcome by many commentators of these intrinsic co-operative features is that a co-operative member has little incentive to contribute more than the minimum funds to the co-operative. This in turn, they maintain, restricts the ability of the co-operative to raise sufficient capital for its commercial activities. The argument concludes that, compared to other commercial business structures, the co-operative structure has an inherent disadvantage in raising capital.

Hansmann (1996) does not share this view. He comments that equity capital required by agricultural co-operatives must generally be raised from the members and that it is not apparent that difficulty in raising capital has substantially inhibited the formation and growth of co-operatives. He further suggests that agricultural co-operative managers have not reflected any general sense that their organisations suffered from serious capital constraints, or that it was harder to raise capital as a co-operative than an IOF (Hansmann, 1996).

Madden (2003b) indicated that the UFCC was well capitalised and the issues outlined above did not arise in the UFCC, although he acknowledged that the ability of an agricultural co-operative to raise capital is an essential element to its viability. The Chair divided UFCC capital raising strategies into two categories; infrastructure funds for building long-lived capital assets and working capital for ongoing co-

operative business activities. Both classes of funds mutually reinforced and leveraged each other.

Rebate Strategies, Retained Earnings and Infrastructure Capital

Consistent with co-operative theory of rebates based on member patronage (Craig, 1993), all UFCC trading profit is distributed back to members as rebates in proportion to the amount of business they have conducted with the co-operative (United Farmers Co-operative Company Webpage, n.d.). The UFCC rebate policy was developed to maximise member benefits under sections of the Commonwealth *Income Tax Assessment Act 1936*, in conjunction with strategies that were permissible under the Western Australian *Companies (Co-operative) Act 1943*. The Chair acknowledged that the legislated taxation concessions, in conjunction with the Western Australian legislation, were very important for the capital raising and financial management of the UFCC and that it would be difficult for an agricultural co-operative to build capital reserves without these concessions (Madden, 2003b).

Under the *Income Tax Assessment Act 1936*, profits retained by a co-operative are taxed at the standard company rate. However, Sections 117, 118 and 119 of the *Income Tax Assessment Act 1936* allow agricultural co-operatives to deduct patronage rebates to members out of pre-tax income. Therefore, an agricultural co-operative does not pay tax on profits that it distributes to members as rebates, transferring the taxation burden to the individual member level (Greenwood, 1999; Hildebrand, 2002; Madden, 2003b). The UFCC is able to comply with the Commonwealth *Income Tax Assessment Act 1936* concessions as all trading profits are rebated to members as unfranked assessable income.

Greenwood (1999), in analysing capital raising strategies for dairy co-operatives located in Australia's eastern States, argues that these sections of the Commonwealth *Income Tax Assessment Act 1936* are counter-productive, since they encourage agricultural co-operatives to return all surplus to members as rebates and therefore restrict the ability of agricultural co-operatives to build up cash reserves. Consequently, agricultural co-operatives are not able to preserve capital for infrastructure (Greenwood, 1999).

However, the UFCC is able to avoid the problem identified by Greenwood of diminishing cash reserves within the co-operative. Of significance to the UFCC

rebate strategy, the Western Australian *Companies (Co-operative) Act 1943* allows members' rebates to be distributed as a mix of bonus shares and cash. UFCC trading profits (surplus) are rebated back to members, not as cash, but by allocating 20 per cent as cash and 80 per cent as bonus shares in the UFCC. The members' rebate associated with the 80 per cent bonus shares is retained within the co-operative as cash for infrastructure capital. In effect, the UFCC has retained the actual cash component equivalent to the 80 per cent of member rebates in return for bonus shares, thereby building a significant interest free cash reserve within the co-operative. The Chair believed that UFCC farmer members understood that the co-operative could not be starved of funds in order to maximise member cash returns and supported the strategy of converting 80 per cent of member rebates into bonus shares (Madden, 2003b).

As the UFCC has rebated all trading profits to members as unfranked assessable income, the members pay the appropriate tax on the combined 80 per cent bonus share rebate and the 20 per cent cash rebate according to their own businesses tax regime, as it is all assessable income for the member. The member generally uses the 20 per cent cash component to pay the overall tax bill (Madden, 2003b). According to the Chair, the UFCC members understand the taxation arrangements and how they have been designed to enable the UFCC to build up its capital reserves (Madden, 2003b).

The outcome of this strategy is that the same tax concession under the Commonwealth *Income Tax Assessment Act 1936* is achieved, but 80 per cent is retained as capital in the co-operative. This ensures that the UFCC has sufficient capital to continue expansion of the co-operative business as only 20 per cent of UFCC profits are rebated as cash. In addition, they do not have to pay interest on the retained rebates because it is not borrowed funds. Madden (2003b) credited this strategy as one of the main reasons that the UFCC had been able to minimise the potential dilemma of capital raising within an agricultural co-operative structure.

For the UFCC rebate policy to work effectively it has to meet several requirements. Firstly, the 80 per cent of bonus share rebates has to be capped at an achievable ceiling, in this case, \$22,000, so that it was a genuine incentive for members to support the strategy (Booth, 2004). When a member has accumulated \$22,000 of bonus shares, the total value of the rebate is paid out to the member in

cash (United Farmers Co-operative Company Webpage, n.d.). The incentive element of the bonus shares worked well as the Chair said that members looked forward to receiving their \$22,000 cash (Madden, 2003b). Madden (2003b) believed that the \$22,000 rebate also encouraged members to purchase more product from the UFCC, for example, by buying two years supply of fertiliser in one year and storing it on their farm, in order to achieve the rebate as soon as possible. This suited UFCC as well because they were selling more fertiliser.

After a member has received their \$22,000, subsequent rebates are paid fully in cash, rather than in the combination of cash and bonus shares. Members are then effectively getting their fertiliser at cost from UFCC, which also means that the member is getting the best possible deal. Madden (2003b) argued that this 'at cost' benefit for members could only occur with a co-operative business model and a corporate could not compete with this strategy.

Secondly, the rebate strategy of 20 per cent cash, 80 per cent bonus shares, combined with the \$22,000 ceiling, avoids the problem faced by co-operatives with high levels of retained member rebates (Booth, 2004; Craig, 1993; Madden, 2003b). When an agricultural co-operative holds high levels of retained member rebates, it may face a significant cash flow problem if many members seek to realise the value of their bonus shares in the same time period (Cook, 1995). With a \$22,000 ceiling, the UFCC is able to monitor how much it needs in reserves to meet projected member rebate payments each year and budget for it, thus managing its cash flow. By limiting the value of bonus share allocations to \$22,000 per member and then paying members out in cash once they achieve this level, the UFCC is ensuring that it will never have a huge 'payout' bill at some future date. Further, the rebate strategy alleviates the 'horizon problem' (Cook, 1995) as members are collectively prepared to leave their rebates in the co-operative to ensure it can pursue future investment strategies, despite their own projected membership timeframe.

Lastly, the 'retained earnings' converted into bonus shares are clearly allocated to members rather than becoming the joint property of all members. This strategy minimises the conflict identified by Cook (1995) about residual claims on the unallocated assets of co-operatives. The UFCC rebate strategy has created a virtuous cycle as it has alleviated many of the identified shortcomings in capital

raising for agricultural co-operatives and generated sufficient funds for infrastructure capital.

Madden (2003b) stated that the five founding UFCC Board of Directors were able to design the rebate policy and associated capital raising solutions due to their prior exposure to capital issues confronting other agricultural co-operatives such as CBH and Westralian Farmers Co-operative. According to Madden (2003b), one of the motives for Westralian Farmers Co-operative to restructure as Wesfarmers was the substantial unallocated equity within the co-operative. In the Wesfarmers situation, Madden (2003b) believed that this resulted in the co-operative shares being undervalued on paper as they were not reflected in co-operative assets. As indicated by Madden (2003b), the Wesfarmers management and Board believed the true value of the co-operative would only be best realised via a corporate structure listed on the Australian Stock Exchange.¹⁶⁷ The UFCC, he argued, avoided this problem of unallocated equity and the value of the co-operative increasing asset wise out of proportion to the paper value of the shares by introducing the cash and bonus share rebate allocation strategy. At all times the amount of member rebates within the UFCC are clearly identified back to the individual members (Madden, 2003b). Consequently, there is no collective ownership of retained earnings within the UFCC (Madden, 2003b).

The Chair (2003b) explained how the UFCC used infrastructure capital. He stated firmly that the UFCC was very clear that its core function is importing and distribution rather than storage and handling. This clarity of vision meant that the UFCC leased storage facilities where possible and capital for infrastructure was minimised. The UFCC only built or purchased infrastructure if no other alternative was available. Additionally the UFCC did not make an investment strategy in infrastructure unless it could ensure a 22.5 per cent return on investment (Madden, 2003b). This strategy also reduces member equity tied to collectively owned infrastructure.

Madden (2003b) illustrated this leasing strategy with the negotiations in 2002 with the Fremantle Port Authority. He remarked that due to the volume of business it conducts, the UFCC found that commercial stakeholders who profit from this

¹⁶⁷ Chapter Four notes that a trigger for the conversion to Wesfarmers was a concern about 'corporate raiders' mounting a take-over bid for Westralian Farmers Co-operative.

volume were keen to work with the UFCC to facilitate business strategies for their mutual benefit. The Port Authority negotiated with UFCC to build dedicated storage facilities that the UFCC leased for 21 years, as both parties benefit from the ongoing success of the co-operative. The UFCC was not using its own capital but rather that of investor agencies (in this case the port authorities) to obtain the infrastructure they required. However, Madden (2003b) acknowledged that, as a facility leased for a significant period of time, the agricultural co-operative now confronted issues associated with depreciation and needed to ensure that the facility was utilised at optimum capacity to maximise returns for its members.

The competing objectives of retaining members' equity within the co-operative for business goals and the desire to return cash refunds to members is a complex issue for agricultural co-operative Board of Directors to manage. The UFCC has dealt with this issue in a manner that supports both objectives. The UFCC Chair is aware that the rebate policy they have instigated is a unique response to rebates and attributes this to the flexibility within the Western Australian co-operative legislation. He said that agricultural co-operative representatives from other Australian States visited the UFCC to gain a better understanding its solution to the tension between capital raising and member rebates.

Working Capital

Madden (2003b) explained that UFCC working capital was gained via a combination of farmer funds and bank borrowings. Initially the UFCC was required to use 'letters of credit', in which it was necessary for the UFCC to have a specified amount of working capital in the bank to pay for the goods before delivery. The early success of the UFCC as a supply co-operative enabled it to build an adequate capital base. Consequently, rather than borrowing money from its own bankers, it was able to leverage the collective capital raising capacity of all its members. The Chair explained the process via a hypothetical example. Each member, he stated, was able to raise, through their own farm business banking arrangements, say \$100,000, with which to buy fertiliser. With about 3000 members placing orders and using their own money to pay for it, the UFCC then had the capacity to import fertiliser very competitively without using its own funds. As a result of this strategy, the UFCC, by 2003 had an annual turnover of \$100 million. Madden (2003b) stated that this system had evolved further whereby the UFCC now operates on the basis of

‘cash against documents’ where the individual farmer pays directly for their order via a direct debit system at a time when the supplier needs to be paid. The UFCC was therefore effectively left out of the capital transfer loop as the farmer was paying the supplier directly. The outcome was that the UFCC adopted a brokerage role and did not itself have to use its own funds to arrange for purchase of product.

Madden (2003b) argued that both categories of fundraising, infrastructure capital and working capital, are mutually beneficial. Further, these internal capital raising strategies enabled the UFCC to raise additional funds in its own right (Madden, 2003b). The Chair stated that their banker had authorised the UFCC to borrow up to 350 per cent of its asset base. He illustrated the significance of this by contrasting the borrowing capacity of an individual farmer, tied to a standard loan to valuation ratio of 50 per cent to 90 per cent of their asset base. Madden (2003b) further stated that the UFCC was the largest Western Australian customer for that bank and the tenth largest customer nationally. Consequently, he pointed out, the UFCC was also able to obtain a better interest rate on the funds it did borrow.

Capital raising is the one consistent point in the literature about the weakness of the co-operative model over the corporate structure. To an extent, the UFCC is not as exposed to the issue of capital raising because as a supply co-operative it has a relatively small need for capital to build infrastructure. However, the UFCC strategies for capital raising are innovative and have proven to be successful. Further, the co-operative business structure has not restricted its ability to raise capital. On the contrary, the UFCC has been able to exploit unique features associated with the co-operative structure to pursue innovative and successful capital raising strategies.

The UFCC approach to capital raising demonstrates that co-operatives have a remarkable ability to accumulate capital when members have a strong collective interest. Madden (2003b) strongly believed that agricultural co-operatives should not have a capital raising problem. Paraphrasing Parnell (1999b), Madden (2003b) argued that if members supported the proposed activities they will make the necessary effort to raise the funds for the well-being of the co-operative, in the knowledge that the co-operative was in effect an extension of their own farm businesses. If the funds could not be raised via the membership, Madden (2003b) argued that the purpose of the funds needed to be questioned. His attitude towards

the issue of capital raising for an agricultural co-operative reiterated his intrinsic connection to the co-operative logic.

Dry Shareholders

In Australia, members of an agricultural co-operative who no longer trade with the co-operative are referred to as 'dry shareholders' or 'non-trading shareholders'.¹⁶⁸ The theoretical problem with dry shareholders in a co-operative is that they separate the ownership of a co-operative from its users (United States Department of Agriculture, 2002). Dry shareholders can therefore adopt the outlook of an investor rather than a member and consequently may behave in a manner that ensures they will gain the most for their shares rather than focusing on getting the best price or service from the co-operative (Cook, 1995). An increasing proportion of dry shareholders in a co-operative's membership may result in sub-optimal influence decision making in the co-operative, and this may not be in the best long-term interests of the co-operative (Cook, 1995).¹⁶⁹ Furthermore, an agricultural co-operative may become particularly vulnerable to corporate take-over when raiders offer dry shareholders a greater amount for their shares than the face or par value of their co-operative shares (Greenwood, 1999).^{170 171}

The UFCC Board of Directors developed a strategy of buying back membership shares from non-trading members at par value, that is, the UFCC pays back the same face value of the share that the member paid for them in the first place. The Board introduced this strategy to avoid a situation relating to dry shareholders which arose with the former agricultural co-operative, Westralian Farmers Co-operative. According to Madden (2003b), non-active Westralian Farmers Co-operative members were approached to sell their membership shares at a premium to a 'corporate raider' who wished to control the co-operative. While the

168 An agricultural co-operative member may become non-trading if, for example, they retire or leave the industry, but still retain their share in the co-operative.

169 This phenomenon is known as the horizon problem (Cook, 1995).

170 Agricultural co-operatives can develop substantial assets but the par value of a member's share does not reflect this as it remains fixed. In addition to the issue of dry shareholders and corporate takeovers, the growing asset backing of a co-operative can stimulate debate in a co-operative to consider a corporate structure to unlock this value held in assets. This argument was employed in the CBH debate about corporatising (Bolt, 2005b).

171 An agricultural co-operative, Pivot, was the target of a takeover bid by Shears in 1987 (Greenwood, 1999).

strategy was unsuccessful, it highlighted the potential problem for a co-operative of a large pool of non-trading members within a co-operative.

The present Western Australian legislation is silent on the issue of dry shareholders. The problems associated with dry shareholders within a co-operative have been recognised in the drafting of the proposed Western Australian co-operative legislation, which expressly excludes dry shareholders from co-operative membership.

Open or Closed Membership

Madden (2003b) commented that in late 2002 the UFCC Board of Directors had recognised that it must contend with being too successful in the business of importing fertiliser and chemicals as it was attracting more members than it had the capacity to service, particularly during periods of peak demand. The UFCC had implemented a strategy to smooth out demand over the year, by offering a discount to encourage farmers to collect their fertiliser in non-peak periods, representing a saving to the UFCC in storage and benefiting both parties. Additionally, UFCC Board considered whether to close off membership in certain geographic regions, as they did not have the capacity to expand storage facilities in those areas. The UFCC Board also contemplated the option of closed membership, by putting a ceiling on the number of members in the co-operative.¹⁷²

This last strategy is contrary to co-operative principles of open membership. The Chair was able to rationalise the incompatibility of this strategy with the co-operative principle of open membership. He stated that the UFCC's primary objective was to the economic well-being of its farmer members. In his view, the UFCC did not have a responsibility to the entire agricultural industry (Madden, 2003b). Therefore, if the Directors determined that closed membership was the most appropriate strategy to address that issue, he was able to support it in good

172 The concept of 'open' or 'closed' membership in co-operative theory is different from the way that the terms are applied to legal discourse. In co-operative theory, 'open' membership means that any farmer can become a member, while 'closed' membership restricts membership of the co-operative to farmers who also meet some other requirement. 'Open' shareholdings in law apply to publicly listed companies which do not put a qualifier on who may purchase shares. 'Closed' shareholdings refer to a situation in which a shareholder must comply with some requirement in order to purchase shares. Farmer controlled businesses registered under the *Corporations Act 2001* are deemed 'closed' as only practising farmers can purchase shares in the company, even though every farmer in the industry may choose to join and this is, in a sense, a form of open membership.

conscience (Madden, 2003b). Subsequently, Madden advised that the problem did not evolve to the point where the UFCC had to close membership.

In contrast to the Chair's concern about the possible need to close membership as a result of too great a demand, Interviewee 650 (2003) was concerned that the UFCC was about to reach a natural ceiling on membership and could only capture another 15 per cent of potential Western Australian members. He considered that this ceiling on members would restrict future growth opportunities for the co-operative. He thought that there may be potential for the UFCC to expand into other Australian States via NETCO (Interviewee 650, 2003).¹⁷³ The UFCC subsequently expanded its membership into Queensland and New South Wales by signing up distributors in these States as members, who then sold UFCC product to non-member farmers (Ladyman, 2004a).

The UFCC Chair's comments in relation to member size reinforce the UFCC objective of being a low cost supply co-operative and demonstrate that the co-operative did not seek to be the largest player in the marketplace (Madden, 2003b). The comments of Interviewee 650 (2003) reflect a need for the UFCC to identify strategies for future business growth. The differing orientations in business strategy revealed by these two perspectives are explored later in the chapter.

External Advisors on Co-operative Board of Directors

UFCC members democratically elect the Board of Directors from within the membership.¹⁷⁴ The Chair strongly believed that it was appropriate for the UFCC to only allow farmer members to sit on the UFCC Board. However, he also acknowledged that a drawback was that it also curtailed the pool of potential Board members and therefore the skills mix of the Board. The *Western Australian Companies (Co-operative) Act 1943* allows co-operatives to appoint non-members as Board directors. The UFCC Board is able to balance the skills mix of its farmer Board Directors by inviting external advisors onto the Board of Directors. In 2003, the UFCC had one external Board member who was from an accounting firm.

173 NETCO was an Australian wide grains industry second tier alliance of agricultural co-operatives (Australian Centre for Co-operative Research and Development, 2003). The UFCC was a foundation member of NETCO. NETCO collapsed in late 2003, a month after being awarded a Rabobank Agribusiness of the Year award (Booth, 2004).

174 The UFCC Board in 2005 consisted of seven farmer members (United Farmers Co-operative Company Webpage, n.d.).

Madden (2003b) maintained that external Directors with expertise in the corporate sector were a beneficial addition to the UFCC Board, as many issues facing corporates and co-operatives were similar, such as governance and finance matters. Madden (2003b) argued that the external Director appointed to the UFCC Board of Directors made excellent contributions in the accounting and business strategy areas. He also considered that the individual was personally committed to the future well-being of the UFCC as a co-operative and made an effort not miss a Board meeting despite personal or work commitments (Madden, 2003b). While Madden (2003b) acknowledged that external Directors may not understand the co-operative philosophy, he believed the potential corporate influence of external Directors was countered by the Board as it was steeped in the co-operative principles. Therefore the Board was able to filter the technical advice of external Directors to ensure that what the Board adopted was consistent with co-operative philosophy (Madden, 2003b). The UFCC case study suggests that external Directors on an agricultural co-operative Board are appropriate and valuable, as long as the Board can interpret and implement such advice via co-operative principles.

Co-operative Principles and Member Education

The demand by some UFCC members for bulk purchase discounts discussed earlier actually reflects a lack of understanding by them about the differences between an agricultural co-operative and a corporation. The underlying problem of member confusion about these differences can be tackled via member education on the distinct purpose and operational functions of a co-operative enterprise.

However, interviews conducted for this research indicated that implementing member education within an agricultural co-operative remains a persistent difficulty for the Western Australian co-operative movement. Madden (2003b) acknowledged that it was a challenge for the UFCC Board of Directors and management to provide conceptual understanding of agricultural co-operative theory to more than 3000 members scattered throughout a large geographical region of the State. The Chair had written articles in the UFCC newsletter about the history of the co-operative movement to build knowledge of the uniqueness of the co-operative model and principles. However, he was certain that the articles ‘went over members’ heads’ and was sure that it was not meaningful for them. Members, he argued, were already

overloaded with information as farm business managers functioning in a rapidly changing agricultural industry. He attributed this information overload to contemporary farmers' need to be competent in a range of areas which was not required of farmers a generation earlier. Non-essential information about the benefits of the co-operative business model in this environment failed to attract farmers' attention.

The Chair thought that the UFCC did not need to be overly concerned about ensuring that members understood the unique purpose and structure of the co-operative model. He considered that as long as members were getting their fertiliser from the UFCC at a cost plus price, the UFCC was achieving its role as a co-operative. He believed that the members' litmus test for the UFCC was the price of chemicals and fertiliser and if the UFCC delivered on this front, the UFCC was servicing its membership. Consequently, Madden's (2003b) preferred strategy in relation to member education was to ensure that the Directors and staff were schooled in the co-operative principles, and as a result, they could make informed decisions on behalf of the wider membership about the strategic and operational direction of the co-operative.

Notwithstanding the Chair's views on member education, the UFCC, however, operates in an environment in which the agricultural industry is confronting significant restructuring based on notions found in neoclassical economic theory. This theory exhibits a partiality towards the corporate structure and diminishes the validity of the co-operative business model. The UFCC membership, without the opportunity to access and participate in co-operative education and develop a strong understanding of the point of difference about the co-operative as a business model from the company structure, is not going to be in a position to make informed judgements on behalf of the UFCC at critical times. As later events suggest, particularly at the 2004 AGM in which members were asked to vote on issues concerning the strategic direction for the UFCC as a co-operative, the scant attention by the UFCC Board of Directors to the education of the broader membership about co-operative principles and strategies proved to be a high risk omission. Further, the Chair's later efforts to communicate the uniqueness and value of the co-operative business model to the UFCC membership was too late to influence them about the future direction of the UFCC. The UFCC experience suggests that, unless members

have an appreciation of co-operative logic, they will not be able to make informed decisions on the future directions of their co-operative.

Generational Change and Succession Planning

In response to the disruptions that occurred when some Board members or staff left their positions, the UFCC Board of Directors subsequently implemented succession planning to ensure the smooth transition from one incumbent in a position to the next (Madden, 2003b). Part of the succession planning strategy involved a training development program for potential Board members, combining professional development in the technical and legal duties of Board members with an understanding of co-operative principles. The UFCC Board invited members to nominate for the program and successful applicants were required to sign a confidentiality clause when they participated in the program. At the completion of the program, those who were interested in pursuing a Board position put themselves forward as potential nominees for future elections. Board members also participated in on-going professional development programs, such as those offered by the Australian Institute of Management (AIM) and the Australian Institute of Company Directors (AICD).

The UFCC also introduced a succession plan for senior management. The sudden removal of one of the previous CEOs demonstrated that the organisation had not mentored other staff to fill this role, leaving the UFCC in a difficult situation (Interviewee 650, 2003). The succession plan for senior staff involved developing a skills matrix for each staff member and then aligning these to the positions within the organisation. The matrix identified strengths and gaps in staff skills sets. Senior staff coached individuals with potential for senior positions about the broader UFCC business management functions.

Clearly the UFCC efforts in succession planning and professional development are seen as an investment, rather than as a cost, in the future of the organisation as an agricultural co-operative. The UFCC case study reveals that the organisation is proactively minimising difficulties with staff and Board changes, which will also contribute to addressing issues associated with generational change. While the 'co-operative champions' who initially formed an agricultural co-operative remain actively involved, the original purpose of the co-operative remains

paramount. However, as the ‘co-operative champions’ retire from the industry, a new generation of farmers will become involved in the organisation and without the inculcation of co-operative values, the co-operative may be at some risk (Craig, 1993).

Cote (2000) observes that the generational shift in a maturing agricultural co-operative can become a pressure point for a co-operative. Subsequent farmer generations may not appreciate or understand the nature of the co-operative business structure and therefore not be able to make informed decisions about future business strategies (Cote, 2000). They may be impatient to convert the co-operative to an IOF to enable it to be free of perceived constraints of the co-operative structure (Cote, 2000). The UFCC case study indicates that dedicated training for prospective Board members in co-operative theory and practice is a potential strategy to avoid this pressure from successive generations to convert an agricultural co-operative to a corporate structure.

The 2004 AGM

The previous discussion has described and analysed several features of the UFCC to understand how an agricultural co-operative, as an organisation, is adjusting to a deregulated agricultural industry. This section is primarily based on an analysis of events in the UFCC in late 2003 and early 2004, culminating with the AGM in January 2004, to gain insight to an agricultural co-operative undergoing a ‘changing of the guard’.

The UFCC was created expressly as a co-operative to maximise returns to the family farm in the form of low cost farm inputs, specifically fertiliser and chemicals (Madden, 2003b). The UFCC has evolved into an organisation of substance and influence within the grains industry and wider agribusiness sector. This growth, however, has exposed an evolving divergence in philosophical beliefs within the Board and senior management about the most appropriate business strategies for the co-operative to implement.

The growing difference of views resulted in Madden resigning as Chair of the UFCC Board in September 2003, although he retained his position as a Director (Ladyman, 2004a). The timing of Madden’s resignation is an indication of the depth

of the crisis, as it occurred outside the usual AGM cycle. Johnson, the deputy Chair and a co-founding Director of the UFCC, was appointed as the interim Chair until the next AGM election scheduled for January 2004 (Farmers Weekly, 2003). Johnson was subsequently elected as the UFCC Chairman and Madden resigned as a Director, ending his role as a driving force in the UFCC. These events were well documented in the rural media (see, for example, Australian Broadcasting Commission Rural News, 2004; Bowen, 2004; Crane, 2004a, 2004b; Farmers Weekly, 2003; Ladyman, 2004a).

Broadly, two groups represented the conflict in philosophical and ideological understanding about the objective of this agricultural co-operative and the most appropriate strategic decision making to achieve that objective. One group is symbolised by Madden, the former and inaugural Chair. This group espouses the co-operative objective of low cost farm input supply to shareholders to maximise the profitability of family farms, supplemented by annual rebates. The other Director group, represented by Johnson, and seemingly aligned with senior management, also claims to adhere to these co-operative goals (Ladyman, 2004b). In behaviour and strategy, however, this faction appears to support profit and growth strategies that are more consistent with the goals of a corporation.¹⁷⁵

Exploring the events leading up to this conflict illustrates the philosophical base underpinning agricultural co-operative strategy and decision making processes as the co-operative matures organisationally. According to rural media reports, Madden's resignation as Chair resulted from his concern over the 2003-04 budget and his perception that the budget indicated a change to the co-operative's strategic direction (Ladyman, 2004a). Taylor, a retired founding Director who, unlike Madden, was freed from confidentiality constraints imposed on Directors, made several strong comments in a letter to the editor of a rural newspaper that give additional insight into the reasons surrounding Madden's sudden and unexpected resignation. According to Taylor (2004), Madden's departure was triggered by a 'lack of opportunity to fully research the annual budget prior to its adoption on the slender margin of 4 to 3 and the potential liability of adopting that budget without

175 To support this growth strategy, the Board argued that the UFCC was losing its competitive advantage as a low cost supplier, as rivals had cut their prices for fertiliser. This had forced the UFCC to diversify into other areas, such as grain buying and insurance to ensure ongoing profitability (Bolt, 2005a).

full appreciation' of its implications for the UFCC. Taylor adds that Madden's concern over the budget subsequently 'degenerated into a legal stand off [by some UFCC Directors and senior management against Madden personally] which has precluded the relevant issues being aired before shareholders' (Taylor, 2004).

The situation deteriorated as three UFCC Board members, including the founding Chair, subsequently resigned from their Director positions in late December 2003 (Ladyman, 2004a). This action suggests a deeply felt disquiet among the three Directors about the strategic direction of the UFCC (Ladyman, 2004a), the accompanying budget to implement this new focus and the ensuing legal 'stand off'. The solicitor representing the three resigning Directors was quoted as stating that they were concerned that the UFCC Board was no longer pursuing the primary purpose for which it was established, and that it was not acting in the best interests of members (Ladyman, 2004a). Further, the solicitor is reported as stating that the three Directors were concerned that this strategy would potentially lead the UFCC in the direction of corporatisation, counter to their belief about members' long-term expectations that the UFCC remain as a co-operative (Ladyman, 2004a).

Prior to the AGM scheduled in late January 2004, the three Directors, represented by Madden, communicated their concerns via a letter to shareholders. They believed that in advising the shareholders of their concerns, shareholders could make an informed decision when voting at the AGM (Ladyman, 2004a). A specific objective outlined in the letter was to encourage shareholders to vote against the re-election of the Chair, Johnson, who, they believed, represented a growth based strategic direction. The letter stated that the UFCC objective of a 'low cost operating structure to maximise returns to grower members is now being eroded' (Ladyman, 2004a, directly quoting from the letter). The letter continued by asserting that 'We have, in a remarkably short period of time, become similar to the organisations that we were originally formed to compete against' (Ladyman, 2004a, directly quoting from the letter). They argued that this was evidenced by the decision of the Board 'by the slender majority, to accept a major change to the strategic direction of the co-operative' (Ladyman, 2004a, directly quoting from the letter). The letter further alleged that the cost of UFCC administration, storage and overheads had increased from 10 per cent of gross turnover of \$88.5 million in 2001 to more than 15 per cent of \$94.6 million in the 2003 trading year. The letter's authors also expressed

concern that non-member farmers in Queensland and NSW had purchased UFCC product at lower prices than Western Australian members, contrary to co-operative principles (Ladyman, 2004a). Taylor (2004) provides further information that supports the resigning Directors' claim of increasing costs. He stated that in the previous 12 month period, 'staff remuneration has increased ... by \$879,000 or approximately 45 per cent' while 'productivity increased by 4 per cent'. Taylor (2004) added that he believed that a similar increase in staff costs was proposed for the following year.

It appears, however, that the three left their communication attempt with shareholders too late. At the closed AGM, Johnson was re-elected. Media reports quoted Johnson as asserting that only two other shareholders supported the position taken by the three resigning Directors (Ladyman, 2004b). Johnson interpreted this as an 'outstanding success and an endorsement of the current Board strategic direction and the current management team' (Ladyman, 2004b). He rejected the claims of the resigning Directors, arguing that if the UFCC was no longer a low cost supplier, members would be switching to the competition to source their chemicals (Ladyman, 2004a).

The UFCC CEO did not deny the allegation that the UFCC was behaving in a similar way to corporates (Ladyman, 2004b). Rather, he rationalised this mirroring of corporate conduct on the basis of the extra regulatory or legislative frameworks, such as occupational health and safety legislation, now imposed on all businesses, including agricultural co-operatives, which were not deemed as important in the early 1990s when the UFCC first formed (Ladyman, 2004b). The CEO also acknowledged that the UFCC costs had increased, but that this occurred within the context of increased profits. While he conceded that the UFCC cost structure was similar to that of a corporate cost structure, he argued that this did not mean that the UFCC was therefore going to become a corporation (Ladyman, 2004b).

The three resigning Directors did not speak at the AGM. Johnson claimed that anyone who wished to speak at the AGM could do so and that if the three did not choose to speak it was their own choice (Ladyman, 2004b). Taylor (2004) gave a different insight into the conduct of the UFCC 2004 AGM process. He claimed that the resigning Directors and their supporters were constrained from speaking freely at the AGM due to the presence of UFCC solicitors at the AGM (Taylor, 2004).

According to Taylor (2004) the three Directors were also refused permission to have their own legal advisors at the meeting. Taylor's interpretation of the AGM casts a different light on Johnson's statement that any shareholder was free to speak.

Despite Taylor's implied suggestion of Johnson's autocratic behaviour at the closed AGM, Madden was reported as saying that he was satisfied with the AGM outcome and that it was a demonstration of democracy at its best (Ladyman, 2004b). Another resigning Board member also echoed this sentiment. This acceptance by the resigning Directors of the outcome of the shareholders' vote illustrates a philosophical position in which the process of democratic decision making contained in the co-operative principles is more important than the actual decision itself (Craig, 1993).

Approximately 130 members attended the AGM out of a membership in excess of 3000, representing less than 5 per cent of the membership. The number of proxy votes held by the Chair was not indicated in media reports. Johnson claimed the attendance of 130 members doubled the usual attendance rate (Ladyman, 2004b). He attributed the high attendance to the media reports of the UFCC Board dispute and member interest in gaining a first hand understanding of the reasons behind the resignation of the Board Directors. Implied in Johnson's statement is that members were able to gain impartial information and make informed decisions about the future direction of the UFCC. However, the above discussion suggests that the AGM was a highly orchestrated process in which the 'demonstration of democracy' was debatable, particularly given the presence of solicitors representing the Johnson faction effectively silencing the Madden faction.

Understanding the UFCC as a Mature Co-operative

The 2004 AGM exposed a divergence in views among Board members about the most appropriate strategies to implement. These debates reflect a deeper discussion about the on-going relevance of co-operative values and business structure for the UFCC as it matures. Interviews with actors connected with the UFCC provide insights into the decision making processes employed to rationalise this evolving shift in philosophical orientation and therefore business strategy. Craig (1993), from a sociological perspective, discusses the motivations of decision making processes in co-operatives. Craig identifies the three criteria for decision

making in a co-operative as profit, service and meaning. The profit rationale for decision making is consistent with the neoliberal philosophy underpinning capitalism and IOFs. This form of organisational decision making tends to be based on the objectives of growth and profit maximisation and is comparable with the style of decision making found in companies.

This can be contrasted with the decision making processes that are compatible with co-operative logic, particularly the service rationale of a co-operative. According to Craig, the service rationale establishes that the purpose of the organisation is:

to provide services to meet individual needs. Democratic participatory structures are present to enable individuals to define their needs and to translate those needs into tangible services provided by the organisations that they control. (Craig, 1993, p 66)

In this framework, good co-operative decisions are ‘those that meet the service needs of the largest number of individual members over the longest time’ (Craig, 1993, p 67). Further, profit arising from the provision of this service belongs to the members and is subsequently returned to members. Growth associated with the profit rationale is therefore a secondary value for a co-operative. Craig summarises by stating:

...the central tenet for decision making is the provision of the services to the people who use the organisation. Co-operative organisations are not ends in themselves, but a means to an end. They exist to serve the members. (Craig, 1993, p 67)

Craig explains that the ‘meaning’ rationale in decision making can be understood as the sense of purpose individuals’ gain from participating in the co-operative. Ensuring that members are actively involved in decision making processes leads to the best decision making outcomes for the co-operative. Craig states that the ‘actual decisions are less important than the manner by which they are reached’ (Craig, 1993, p 67).

The profit rationale emanating from orthodox economic theory can explain the philosophical basis and the accompanying organisational goals embraced by the Johnson camp. However, this rationale can hardly sustain the co-operative logic of the UFCC and will lay the foundations for increasing imitation of corporate

behaviour. In contrast, the service rationale displayed by the inaugural Chair is clearly demonstrated by his view that the strategic direction of the UFCC needs to be based on the provision of a low cost supply to reduce input costs to members and contribute to the profitability of members' farm businesses. This is consistent with the view that the UFCC is a means to an end for shareholders, rather than an end in itself. This understanding appears to have been lost by the Johnson camp, which seem to focus on the UFCC as a stand-alone entity in its own right.

Lastly, Madden's comment that the UFCC AGM was 'a demonstration of democracy at its best' (Ladyman, 2004b) and a comment by another resigning Director that the decision of the shareholders was 'fine by him' and he wished the UFCC Board well (Ladyman, 2004b) reflect Craig's concept of the 'meaning' rationale. Madden's statement embodies the concept that the mechanism of the democratic decision making process was more important than the decision itself, even though his personal view was the casualty of the shareholders' vote.

Craig's analysis helps explain the difference in interpretation of the term 'growth', a term frequently and readily used during the interviews to describe UFCC strategies. From one perspective, UFCC growth is evidenced by the substantial increase in membership numbers and the consequent expansion in scale in the importation of chemicals and fertiliser and the associated logistical matters. In this context, growth is consistent with the UFCC objective as a co-operative of low cost supply. This form of growth has a positive impact on the co-operative as it facilitates economies of scale that in turn enhances low cost supply. The 'profit' or surplus that accumulates as a result of this type of growth, after servicing business expenses, is returned to members in the form of rebates proportionally linked to volume of business conducted with the UFCC. After a decade of adopting this form of growth, Madden still remained committed to maximising returns to the family farm (Lee, 2003). Clearly, the rapid expansion of the UFCC had not altered Madden's belief in the co-operative principles or the relevance of the co-operative business structure for farmers and the agricultural industry.

However, the term 'growth' reveals how commonly used and understood corporate terminology can lead to confusion about precisely what is meant to be conveyed by this language terms in the context of a co-operative business. In business and strategic management theory, growth can also be understood as a

business strategy in which the pursuit of profitability becomes an end in itself. There is clearly a clash of ideologies with these different understandings of growth (Craig, 1993, p 66). Hind notes this discord by stating that:

The [literatures] relating to conventional businesses exhibit a tendency of accepting growth as an inevitable consequence of corporate existence, i.e., to grow or die. Certainly many economic and management theories of firms lean toward profit, growth, or sales maximization/optimization as the firm's obvious goals. For conventional, non-co-operative structures, this may well be appropriate. Co-operative definitions and theory, however, would suggest that these traditional corporate goals are either superfluous or act as constraints within which other member benefit goals may be aimed, i.e., in theory at least, they are a means rather than an end. (Hind, 1997, p 1079)

This corporate interpretation of the term 'growth' is illustrated by a statement from the Chair which demonstrates that he believes that the UFCC was adopting a pro-business growth strategy counter to co-operative values. Madden publicly stated that:

I don't mind growth, providing that growth is sustainable and in the best interests of the shareholders; but the growth that the Co-operative has endeavoured to achieve over the last couple of years, and I believe in the future, has come at a cost to shareholders; and the cost has been reflected back in higher prices and a lower rebate. (Australian Broadcasting Commission Rural News, 2004)

Madden's assertions about inappropriate forms of growth in an agricultural co-operative reflect a tension about what is the most suitable strategy for a maturing agricultural co-operative. The life cycle concept, paradoxically derived from business management and economics disciplines rather than co-operative theory, is a useful diagnostic device to gain an insight into the UFCC's evolution, its present circumstances and possible directions for future strategies to work through this clash in ideologies. Hanks, Watson, Jansen, and Chandler (1993, p 7), cited in McMahon (1998), define the life cycle as 'a unique configuration of variables related to organisation context or structure'. Based on a biological metaphor, the life cycle concept reasons that all organisations will pass through several identifiable stages of evolution (McMahon, 1998). Consistent with most economic and management theories of the firm, the concept is underpinned by a pro-growth orientation. This

assumption of growth drives organisational decision making, although empirical research acknowledges that some business behaviour is not solely motivated by growth (McMahon, 1998). The life cycle concept further assumes that businesses generally progress sequentially from one stage to the next in a deterministic manner. A cluster of features is usually associated with each life cycle phase. Various models of organisational life cycle suggest that there are three to ten phases of development (McMahon, 1998). McMahon (1998) favours the Hanks et al. (1993) model which consists of four development stages and two 'disengagement' stages. Summarising Hanks et al. (1993), these stages are:

- The start up phase in which the organisation is a young and small enterprise with a simple organisational structure.
- The expansion phase in which the organisation is a slightly older and larger entity with a more complex organisational structure. As the organisation is more formalised, functional specialisation is implemented and the goal of the organisation is product commercialisation.
- The maturity phase in which the organisation is double the size of the expansion phase although it may not be older. The internal structure is more complex with increasingly specialised functions.
- The diversification phase in which the organisation is medium sized with divisional structures. Organisational formality is at the highest level of any stage of the life cycle. (Hanks et al., 1993, cited in McMahon, 1998).

Of interest to a maturing agricultural co-operative, Hanks et al. (1993) include two 'disengagement' life cycle stages in which the business is sustainable but not oriented around the concept of growth. Paraphrasing, these stages are:

- The life style phase in which the organisation is a little larger than the start up phase but usually older. Organisationally it is similar to the start-up phase but it has attained viability as a small scale organisation and then disengaged from the growth process.
- The 'capped growth' phase¹⁷⁶ in which the organisation is slightly bigger than the expansion stage, although usually much older. It is often less

¹⁷⁶ This is McMahon's term for this phase.

complex organisationally than other businesses in the expansion phase. The organisation is economically viable and profitable, as it has achieved an appropriate size and depth of market penetration. The organisation can linger at this stage indefinitely, as long as the external environment does not erode its market niche or management undermine its competitive advantage. (Hanks et al., 1993, cited in McMahon, 1998)¹⁷⁷

Based on the phases of the life cycle model, the UFCC appears to be straddling the maturity phase and the diversification phase. The UFCC has evolved into a highly departmentalised and hierarchical structure, with senior executives managing their respective departments and reporting to an overarching CEO. Policies and procedures are documented and formalised, with a strong focus on corporate governance. Further, reported media comments from Johnson, the UFCC Chairman who succeeded Madden, suggests that the UFCC has linked its future strategy to the business growth focus of the diversification phase.

In contrast, Madden's reported statements suggest that he believes that the future strategy for the UFCC, as a co-operative, would be more compatible with the 'capped growth' phase (Ladyman, 2004a, 2004b; Madden, 2003a, 2003b). The capped growth strategy honours the foundation co-operative objective of maximising returns to farm business via the supply of low cost fertilisers. This suggests focusing on the maintenance and servicing of present members. This strategy is a form of 'satisficing' in which the UFCC Board are content to adopt a long term strategy in which the UFCC sustains itself by continuing with its original purpose of being a low cost farm input co-operative. The life cycle concept theorises that this strategy is sustainable in the long term and can only be undermined by a changing external environment diminishing its market niche or by inappropriate management styles.

For an organisation wedded to a co-operative logic, this strategy explains the UFCC's co-operative objective on behalf of its shareholders. However, for a co-operative employing senior management imported from the corporate sector and experiencing a period of rapid development as it matures organisationally, this

177 In addition to the phases outlined above, McMahon (1998) notes that some life cycle models also include an organisational development phase, (which occurs prior to the start-up phase), a decline phase and a renewal phase.

strategy is at odds with corporate trained management's understanding of organisational behaviour.

The concept of organisational life cycle reveals that in the early phases of start-up and expansion, the organisation attracts individuals whose management style is entrepreneurial and energetic to ensure that the organisation survives and grows in a dynamic and possibly threatening external environment (Hanks et al., 1993, cited in McMahon, 1998). The UFCC case study confirms this very engaged style of Directors of co-operatives, as the founding UFCC Directors were highly visionary, committed and motivated. These characteristics are also consistent with the phenomenon of the 'co-operative champion', as discussed in Chapter Seven. However, when an organisation evolves and matures, the life cycle concept demonstrates that a more conservative management approach is required (Hanks et al., 1993, cited in McMahon, 1998). A 'capped growth' strategy, essentially implying a failure to grow, is contrary to strategies adopted by managers socialised in the corporate logic (Craig, 1993). Encouraged by management mostly trained within a corporate environment who are keen to demonstrate their capabilities in continuing with the UFCC success story, it is almost inevitable that some Board Directors would scan for alternative business strategies based around the economic concept of growth, as understood in an IOF sense (Craig, 1993). The fact that the business is a co-operative with clear principles for strategic behaviour is lost in this excitement. Hence, corporate trained managers resist strategies for a maturing co-operative that are consistent with co-operative principles (Craig, 1993).

Madden's comments indicate that strategies based around pursuing growth as a goal in its own right were being considered by the UFCC Board of Directors. Without clear guidance of business strategy founded on co-operative logic, combined with a lack of insight by Directors and management about what is occurring (Craig, 1993), a co-operative organisation can drift under its own powerful momentum (Perrow, 1986) into the default IOF position of pursuing growth in volume, customers and turnover. Strategies such as supplying interstate 'members' with fertiliser at a lower cost than Western Australian members and offering grain

marketing and crop improvement services certainly increases turnover.¹⁷⁸ In the process, increasing turnover and ‘profitability’ become the indicators by which management and the Board of Directors start to gauge the organisation’s success rather than the co-operative objectives of member benefit and services. Consequently, the goal of low cost supply becomes a secondary concern to the pursuit of growth strategies.

The twin tensions in the goals of low cost supply and increasing turnover and profitability are difficult to juggle. The organisational maturing of the UFCC, the importation of senior management socialised in classical economic theory and IOF business structures, and the centralisation of power and decision making away from the regionally based members to a head office, have all combined and contributed to eroding the co-operative logic of the UFCC. The original purpose of maximising farmer business returns for the benefit of shareholder members becomes lost in this evolution. Madden’s untidy exit from the UFCC Board symbolises just how far the UFCC has strayed from its co-operative roots.

Notwithstanding the above analysis, an alternative explanation can be mounted. Madden’s views can be interpreted as a form of ‘arrested development’, in which he is resisting the natural life cycle evolution of the UFCC into its most appropriate long-term business structure. Maug (2001, p 167) presents an argument that the ‘optimal ownership structure of a company changes over the life cycle of the firm’. He argues that as an organisation progresses through the life cycle stages, the most appropriate company structure may also change. Therefore, Maug argues, in some phases of the organisation’s evolution, it is advantageous to retain the original structure; however, this comparative advantage can change over time and another structure may better serve the organisation’s needs.

The extension of the evolution of an organisation’s life cycle to also include a change in business structure is pertinent to the UFCC. This argument provides an

178 The UFCC Board response to a perceived conflict in co-operative principles of low cost supply and high rebates illustrates this drift towards corporate strategies. The Board, under the guidance of its Chair, Johnson, argued that members judge the success of the co-operative via high rebates rather than low cost supply and as a result it was important for the Board to focus on strategies to ensure high member rebates (Johnson, 2005). The Board elected to ‘progressively pav[e] the way to create revenue streams from investment in value-adding processes to deliver increased returns in the future’ (Johnson, 2005, p 1). This strategy is similar to a corporation as it is an investment designed to create a profit for distribution back to shareholders. It is not related to the co-operative purpose of provision of goods and services to members.

insight into the conversion of Westralian Farmers Co-operative from a farmer owned and controlled co-operative to a publicly listed company structure of Wesfarmers with non-farmer shareholders. Munro (2003) argued that Westralian Farmers Co-operative had simply outgrown its co-operative business structure and had to become a publicly listed company. The conversion of the co-operative to Wesfarmers and its subsequent growth illustrates Maug's (2001) point that the most appropriate business structure evolves over the life cycle of an organisation. The Wesfarmers conversion also provides some insight into UFCC's possible future direction as a co-operative.

The Subtle Influence of Wesfarmers

In March 2004, national and local media reports about a 94 year old retired farmer from the small wheatbelt town of Narrogin captured the imagination of Western Australians (Australian Broadcasting Commission, 2004; Australian Broadcasting Commission PM Radio National, 2004; Bolt, 2004; Sydney Morning Herald, 2004; The Age, 2004). Bachelor Alf Jenkins, who had passed away in 2003, willed his neighbours a parcel of 400,000 Wesfarmers shares worth about \$11 million. Most of the media stories focused on the quiet unassuming habits of Jenkins, his love of country sport, the kindly nature of his long standing and aging neighbours who cared for him as a family member, and the way that country people look after each other.

Aside from the warm-hearted human interest element of this story, another narrative is evident. This relates to the potential capital gain agricultural co-operative shareholders can hope to achieve if the co-operative changes its structure to a company. According to Bolt (2004), thousands of older Western Australian farmers have accumulated share funds worth several hundred thousand dollars each as a result of owning shares in the former Westralian Farmers Co-operative. Bolt, however, also covertly delivers another message, that is, it is the duty of agricultural co-operative Directors to explore the benefits of the corporate model on behalf of their member shareholders. Bolt's analysis of Wesfarmers 'spectacular growth' and that it was once a 'sleepy West Australian farmer co-op', implicitly reinforces a view that agricultural co-operatives are old fashioned structures and successful co-operatives must convert to a corporate structure to capture higher shareholder profitability. The media presentation of the Wesfarmers story is that the most

appropriate and even ‘ethical’ goal for a co-operative Board of Directors is to steer a successful co-operative onto the path of corporatisation. Bolt’s newspaper report connects Wesfarmers growth in share values as a corporate to that of the Australian Wheat Board (AWB), another former farmer owned entity that is now publicly listed, as Bolt reports, to the advantage of Western Australian wheat farmers.¹⁷⁹ Bolt (2004) also suggests that each Western Australian grain grower could also benefit by \$100,000 if Co-operative Bulk Handling (CBH) restructured from a co-operative to a listed company. Media reports reinforcing the subsequent profitability of agricultural co-operatives that convert to corporations further emphasise the perception of the inappropriateness of the co-operative structure in contemporary Western Australian agriculture. For UFCC Directors, and no doubt some members, the Wesfarmers story presents as an alluring model for the UFCC to emulate.

This thinking can be theoretically reinforced within contemporary economic public policy, as a market economy endorses profit driven and growth oriented corporate business structures as the most appropriate organisational structure. In this context, the agricultural co-operative model is seen as an anachronism of a time long past. Some agribusiness interviewees have explained the paradoxical success of the UFCC in a contemporary agricultural industry by suggesting that the co-operative model is acceptable in a start-up situation when the market does not enable a company structure to evolve (Interviewee 688, 2001; Interviewee 689, 2002; Interviewee 695, 2003). However, once the co-operative has reached a critical mass, the message is that modern business actors do not sentimentally attach themselves to the co-operative structure; rather, they move in the direction that market forces take them.¹⁸⁰ If this means restructuring a co-operative to a corporate structure, so be it.

Would this strategy represent a betrayal of the co-operative members and the co-operative ethos? Or would it indicate that the UFCC Board of Directors have behaved truly responsibly by steering the UFCC toward a corporate structure and giving members the opportunity to potentially benefit from rising share values in the

179 Bolt is incorrect to suggest that Westralian Farmers Co-operative and the AWB are similar organisational structures. The AWB was not a co-operative, but rather a SMA underpinned by legislation, which gave it monopoly powers in the marketing of wheat. Therefore, the linking of Wesfarmers as a former co-operative that corporatised to AWB which is now ‘privatised’ is inappropriate. Further, it is debatable if CBH is a co-operative as it also has a legislative base which historically gave it monopoly status. The confusion between SMAs, quasi SMAs and voluntary agricultural co-operatives was frequently encountered in the course of this research.

180 This view is consistent with Nourse’s theory of competitive yardstick.

way that Wesfarmers shareholders have? This research has revealed very few criticisms from interviewees of the Wesfarmers decision to convert to a corporate structure. Madden (2003b) is one of a few individuals who is prepared to state that Wesfarmers actually betrayed not only its present shareholders, but its founding members, past and future generations of farmers and the agricultural industry, when it corporatised.

The paradox for those who wish to see the UFCC continue into the long term as an agricultural co-operative is that farmer members of the former Westralian Farmers Co-operative who retained their Wesfarmers shares have now become wealthy. This further reinforces the perception held by some UFCC shareholders and other actors connected with the agricultural and agribusiness industries (possibly a majority) that the true benefits of a co-operative come to its shareholder members when it converts to a corporation and is subsequently able to compete profitably in the market place.

UFCC Postscript

Recent developments within the UFCC provide further insight into the evolving position of agricultural co-operatives in Western Australia. At the 2006 UFCC Annual General Meeting, Mr Max Johnson, the Chair elected after Madden's resignation in 2004, unexpectedly lost in a vote for re-election as Chair (Bolt, 2006a). Prior to the election, a dissident group of about 20 members sought to negotiate with the Chair to remove the Chief Executive Officer. The group expressed disquiet about the incremental shift in the UFCC from its original focus on the low cost supply of fertiliser and chemicals by diversifying into wool broking, grain buying, insurance and finance. The group was also concerned that the UFCC did not pay a rebate in 2005, for only the second time in its history (Bolt, 2005a, 2006a).¹⁸¹ The group's concerns suggest that some members believed that the CEO was the instigator of the changing direction within the UFCC. Johnson refused to abide by the group's demands, and as it held the numbers to defeat him, he lost the

181 The first time the UFCC did not pay rebates is discussed in Chapter Seven. According to the UFCC, several factors accounted for low profitability and the subsequent decision not to pay a rebate in 2005. Although the cost of fertiliser rose substantially, revenue was sacrificed to enable the UFCC to maintain its pre-rise price. The UFCC was left with carry-over stock as many farmers did not collect pre-ordered fertiliser due to liquidity problems or the wet start to the season. Delays also occurred with commissioning a compaction plant (Bolt, 2005a).

election. Just over a month later, in March 2006, the UFCC CEO suddenly resigned, refusing to comment on the reasons for his decision (Henderson, 2006a).

Madden continues to be a significant actor within the Western Australian agricultural co-operative sector. In late 2004, he was appointed as a Director on the Board of WAMMCO, the meat processing and marketing co-operative established following the dismantling of the meat industry SMA (Western Australian Meat Marketing Co-operative, 2004). In 2006, Madden successfully campaigned for election as a Director on the CBH Board, on the platform of regaining grower ownership and control of CBH. He won the position formerly held by long-standing and pro-corporate director, Mr John Carstairs.¹⁸² Madden's election was interpreted as a win for the pro-co-operative lobby (Henderson, 2006b). The continuing influence of Madden in the agricultural co-operative sector, while the UFCC has had yet another change in Chair and CEO, indicates a growing power balance in favour of those advocating the co-operative business model over those who are advocating other business structures.

Concluding Comments

This chapter analysed internal factors at the UFCC in order to understand how, as a maturing agricultural co-operative, it has negotiated its position within a changing macro-economic environment. The UFCC case study indicated that part of this maturation process for an agricultural co-operative is evaluating the relevance of the co-operative principles and structure. The chapter argued that there are strengthening signals suggesting that the UFCC Board is considering alternative business structures, possibly corporatisation. The diverging views concerning the UFCC's strategic direction, exposed by the 2004 AGM, demonstrated that the commitment to the ethos and values of the agricultural co-operative philosophy for larger and maturing agricultural co-operatives is challenged by the weight of neoliberal ideology.

The 2006 developments at the UFCC, however, indicated that some farmer members are not prepared to accept this shift within the UFCC to corporate business

¹⁸² Mr Carstairs is also the Chair of the CFWA, the peak body for the Western Australian co-operative sector.

strategies and a potential conversion to a company. This mirrors the long but eventually unsuccessful debate within CHB to corporatise and possibly list on the Australian Stock Exchange. A shared theme connected these developments. They suggested that farmers' minds have become focused on the importance of actively defending farmer owned and controlled structures, such as agricultural co-operatives, as a strategy to protect their position in a changing agricultural supply chain. The exit of Johnson and the CEO from the UFCC is an indicator that farmers are not prepared to lose control of collective business structures that assist them in competing fairly in an evolving domestic and market environment. This hinted that contemporary farmers are developing a sophisticated understanding of the role of agricultural co-operatives in helping them adjust to neoliberal influenced reform.

However, the case study also demonstrated that members need to be vigilant against pressures to corporatise agricultural co-operatives. The possible conversion of the UFCC to a corporate needs to be placed against a background in which many external commentators schooled within a liberalised market economy perceive agricultural co-operatives as immature business structures. Moreover, this perception is reinforced by the subtext of the Wesfarmers story as an idealised archetype for a large successful co-operative to imitate. Therefore, despite the coalescing of some farmers into a faction to defend the co-operative structure for the UFCC, other members perceive a conversion to a corporate business structure as an appropriate and reasonable long-term strategy for the co-operative.

CHAPTER NINE

Concluding Remarks: The Contemporary Position of Agricultural Co-operatives in Western Australia

Introduction

This thesis has provided an exploratory study of the Western Australian agricultural co-operative sector during a period of significant industry restructuring. It has approached the analysis at two levels. Firstly, the thesis has examined the broader political economy shaping the agricultural co-operative sector. Secondly, via a detailed case study of one agricultural co-operative, the thesis has considered how this external world influenced the internal behaviour of the agricultural co-operative. This chapter revisits these two themes in the context of the information outlined in the preceding chapters. The chapter concludes with recommendations for public policy for the Western Australian agricultural co-operative sector and possible areas for future research into agricultural co-operatives.

Thesis Findings

The thesis has broached a myriad of challenging issues for the Western Australian agricultural co-operative sector. Chapter One noted that Western Australia experienced an upsurge in co-operative formation in the recent past. Several issues contributed to this renewed interest in the co-operative model. These included the rapid growth of a relatively new agricultural co-operative, the UFCC (Lee, 2003), the on-going debate within CBH about the most appropriate business structure it should adopt (Bolt, 2005c) and industry deregulation in which several co-operatives formed in the wake of dismantled SMAs (Interviewee 689). Additionally, the Western Australian Department of Agriculture was emerging as an actor in the agricultural co-operative sector (Interviewee 680), and the CFWA, in converting the Executive Officer role to a full-time position, was beginning to exert some influence in the

wider co-operative movement in Western Australia (Booth, 2004). However, the chapter also hinted at possible barriers to the uptake of the co-operative model associated with neo-liberal influenced industry reform that potentially limited the momentum of the mini-revival. This paradox was essentially the research problem. The research question arising from this tension was:

How do contemporary agricultural co-operatives contend with a neoliberal influenced political and economic environment?

Chapter Two reviewed selected literature to analyse the major approaches to co-operative theory and agricultural co-operative theory. The chapter discussed definitional variations of an agricultural co-operative and stated the definition adopted within this thesis. The chapter highlighted the influence of economic analysis to explain the formation and behaviour of agricultural co-operatives. This analysis has tended to fall into two areas. Firstly, at a macro-economic level, theory evolution has sought to explain the existence of the agricultural co-operative as an organisational structure by its capacity to contribute to the public good by correcting market failure (Torgerson et al., 1997). This area of theoretical development predated the second theme of agricultural co-operative theoretical evolution. Starting around the late 1940s, the focus of theoretical evolution shifted to micro-economic analysis of the internal organisational behaviour of agricultural co-operatives (Torgerson et al., 1997). This later theoretical development often focused on perceived structural deficits in the agricultural co-operative model, particularly in comparison with the IOF structure, and frequently prescribed the incorporation of elements of the IOF model as a solution. A contemporary and evolving area in the theoretical and empirical literature was an exploration of agricultural co-operatives that have incorporated features of the IOF, with the NGC model presented as an example of a hybrid agricultural co-operative structure.

Chapter Two also reviewed literature for alternative theoretical insights into agricultural co-operative behaviour. Craig's (1993) concept of 'co-operative logic' was used throughout this thesis to examine the behaviour of actors associated with agricultural co-operatives. The concept of social capital (Bourdieu, 1986; Putman, 1993) provided an alternative lens to examine farmer member motivation and the potential impact of the agricultural co-operative on rural communities. Mooney and

Gray (2002) examined the organisational tension that may arise within agricultural co-operatives from embedding the co-operative values in business strategy.

The chapter concluded that a dominance of orthodox economic theory about the behaviour of agricultural co-operatives was unable to explain some features of contemporary agricultural co-operatives. Neglected areas in the economic analysis of agricultural co-operatives included, for example, non-economic motivations for member involvement with an agricultural co-operative and the role of co-operative values within the organisation. Research into the capacity of the agricultural co-operative to contribute to the public good by correcting market failure is currently lacking in the contemporary analysis of agricultural co-operatives. Additionally, further research into the ability of the agricultural co-operative to integrate farmer members' businesses with the supply chain is required. An emerging theme in the recent literature has been a call for an interdisciplinary approach to broaden theoretical and empirical understanding of agricultural co-operative behaviour. This thesis has adopted an interdisciplinary approach to examine the agricultural co-operative model in the Western Australian context.

Chapter Three explored key concepts embedded in neoclassical economic theory and neoliberalism (Pusey, 2003). The chapter discussed changes in agricultural industry policy over the last two to three decades in Australia, brought about by the international and domestic economic and political policies influenced by neoliberalism (Keogh, 2004). The chapter argued that agricultural industry policies, based on neoliberal notions, have had an uneven impact on the industry and rural communities. Given the theoretical capacity of agricultural co-operatives to contribute to the efficiency of the market, as identified in Chapter Two, this chapter argued that the model contributes to the economic well-being of farmers as they confront significant structural changes arising from market-based policies.

Chapter Three concluded that, paradoxically, neoliberalism has a double effect on agricultural co-operatives. While agricultural industry deregulation, including the dismantling of SMAs, can stimulate renewed interest in the co-operative business model by present day farmers, the chapter noted that neoliberalism also sets limits on the evolution of commercially successful agricultural co-operatives. The foundations of neoclassical economic theory, based on notions of individualism and the singular pursuit of profit maximisation by IOFs

(Pusey, 2003), downplays the collective and democratic nature of co-operative principles that are fundamental to the co-operative business structure (Craig, 1993). Furthermore, the chapter established that the co-operative business model is frequently misconstrued or misunderstood by powerful gate keepers who, influenced by orthodox economic theory, privilege the corporate IOF model over the co-operative model and incorrectly deem the co-operative business model as a substandard or outdated structure. Additionally, under the influence of the open market, agricultural co-operatives in present day Western Australia also function in a wider political, business and economic environment. This environment, the chapter argued, reinforced this misinformed perception of the co-operative business model and therefore marginalised it as a legitimate alternative business structure.

To place the contemporary period in perspective, Chapter Four explored the development of the early Western Australian agricultural co-operatives in the first decades of the 20th century. The harsh economic and social conditions in rural and regional Western Australia during this period were particularly associated with the development of these co-operatives (K. Smith, 1984). Westralian Farmers Co-operative was a co-operative of significance that emerged from this period. Consistent with agricultural co-operative theory, Westralian Farmers Co-operative evolved to correct some form of market power, specifically to provide a missing or costly service or good in the market (Cobia, 1989). The chapter demonstrated that Westralian Farmers Co-operative symbolised the capacity of the co-operative model to adapt to and create an economically strong and politically influential Western Australian agricultural co-operative sector over the following half century.

Parallels can be drawn between the harsh economic conditions described in Chapter Four and the conditions confronting farmers during the contemporary period of agricultural industry restructuring, as discussed in Chapter Three. Chapter Four argued that these conditions in the first decades of the 20th century triggered the early period of the Western Australian agricultural co-operative sector evolution by correcting some form of market failure. These difficult contemporary conditions partly explain why, as discussed in Chapter One, Western Australia has witnessed a minor resurgence in agricultural co-operative activity in the last few years.

Chapter Five examined the CFWA, the peak body for the co-operative movement in Western Australia. By exploring the functions of a peak body, the

chapter argued that the CFWA has a particularly difficult task undertaking the role of a peak body. Firstly, the CFWA has to position the co-operative business model as a valid alternative to the IOF business model that is favoured by the dominant neoliberal framework discussed in Chapter Three. In this setting, considerable skill is required by the CFWA to access influential gate keepers and public policy makers and present strong arguments in favour of the co-operative model. Additionally, the peak body is required to support and develop its membership base and become the custodian and inter-generational transmitter of co-operative values. The chapter argued that the CFWA currently does not have sufficient capacity or authority to achieve either of these functions and is limited in its ability to facilitate the long term sustainability of the co-operative movement.

Chapter Six examined the State level public policy and institutional frameworks for the agricultural co-operative sector. Chapter Six argued that as agricultural co-operatives have the capacity to correct market failure, they are in turn performing a 'public good' (Fulton, 2001). By addressing market failure, agricultural co-operatives are facilitating greater competition in the market. Therefore, agricultural co-operatives have the capacity to enhance the productivity of the agricultural industry, providing a rationale for government investment in the agricultural co-operative sector (Fulton, 2001).

The chapter argued that the State has a valid role in ensuring that the co-operative model is presented to actors involved in agricultural business and rural economic development as a beneficial business model for the agricultural industry. Furthermore, the chapter maintained that the State has an implied obligation to help sustain a viable institutional framework to support the wider Australian co-operative movement. Notwithstanding some legislative frameworks supporting agricultural co-operatives, the State, under the influence of orthodox economic policies that dictate minimal and small government, has generally not taken on this broader public policy and institutional responsibility. The chapter concluded that the lack of a public policy position for agricultural co-operatives by the State disadvantages Australian farmers and rural communities as there are consequently fewer options available for farmers to adjust to the negative outcomes of an open market in rural Australia. This public policy deficit has in part contributed to the highly vulnerable situation of the current Western Australian agricultural co-operative sector.

Chapter Seven was the first of two chapters devoted to the UFCC. In examining the UFCC, the chapter ascertained that the role of charismatic farmers who arose from the 'grass roots' and promoted the co-operative business alternative to fellow farmers was a critical factor in the formation of agricultural co-operatives. This was significant, as Chapter Six has demonstrated a deficit in public policy and institutional support for the agricultural co-operative sector at the State level, while Chapter Five concluded that the CFWA was limited in its capacity to undertake its peak body role. Consequently, existing and embryonic agricultural co-operatives were highly dependent on other mechanisms, such as the role of charismatic farmers, for their development. Patrie (1998) and Ergstrom (1994) also identified the central role of the co-operative champion in the formation and growth of agricultural co-operatives and contended that without these co-operative champions acting as instigators, co-operative businesses struggled to become established.

Chapter Seven argued that the dependence on co-operative champions to stimulate agricultural co-operatives in Western Australia further highlighted the lack of wider institutional frameworks to support agricultural co-operatives. This situation also revealed an *ad hoc* approach to agricultural co-operative development and the potential vulnerability of the Western Australian agricultural co-operative sector. Additionally, the chapter noted that alternative sources of well-informed co-operative advisory support and knowledge in Western Australia were scarce. In the absence of wider institutional support, the subsequent loss of a co-operative champion from an established agricultural co-operative may result in it becoming unsustainable as a co-operative in the longer term (Craig, 1993).

Consistent with agricultural co-operative economic theory, Chapter Seven also established that the UFCC was formed to address a market failure. Farmers were unable to buy agricultural chemical and fertiliser at fair prices due to the dominance of an IOF in the market place (Cobia, 1989). Madden (2003b) highlighted the paradox of this situation, as the IOF itself was a former agricultural co-operative.

Chapter Eight continued with the UFCC case study by investigating the influence of the neo-classical influenced market place on the internal behaviour of the co-operative. Chapter Eight argued that as the UFCC matured as a business, it has become highly susceptible to the influence of management imported from the

corporate sector. These managers, trained in IOF business and financial management theory, were unfamiliar with or indifferent to the business ethos of organisations based on co-operative values. The case study also highlighted that the UFCC Board of Directors was similarly drawn in conflicting directions by co-operative principles and corporate business practices. This scenario is consistent with that outlined by Craig (1993) who argued that within the present neoliberal paradigm, co-operative principles are challenged by management trained in IOF business strategies, leading to the pressure to corporatise. Building on this concept, a maturing agricultural co-operative can be subject to a life cycle that moves from a co-operative structure, via incremental pragmatic adjustments to perceived deficits in the co-operative business model, to an eventual corporate business structure. Craig (1993) argued that when co-operative Boards of Directors and management base business strategy on co-operative logic, they are able to resolve tension between IOF and co-operative philosophy. The UFCC case study, supported by the outcome of the unsuccessful attempt by some actors seeking to corporatise CBH, suggested that members can exert a restraining influence on Boards of agricultural co-operatives that are tempted to corporatise. It remains to be seen how the UFCC will resolve its internal tensions between co-operative principles and IOF business strategies and if it will remain a co-operative in the longer term.

The thesis concluded that, despite some incongruity in the theoretical basis of agricultural co-operatives and neoliberal influenced reform, the agricultural co-operative model has a role in the contemporary market driven economic environment of Australian agriculture. The UFCC case study illustrated the theoretical and applied strengths of the model within an industry responding to agricultural restructuring. Rather than positing a diminishing role for agricultural co-operatives in present day Western Australian agriculture, the thesis concluded that the agricultural co-operative structure has a valid contribution to make to contemporary agriculture.

Thesis Recommendations

The thesis recommends a sustained response by key agencies to develop a public policy and institutional framework for the agricultural co-operative sector. A significant strategy is to build a solid CFWA to undertake its core functions as a peak body. This approach requires a supportive Department of Agriculture, Department of

Local Government and Regional Development and Department of Consumer and Employment Protection to assist the CFWA develop and implement strategies that present the co-operative structure to farmers and rural communities as a legitimate and economically viable means of engaging with a changing global agricultural market. Additionally, professional advisors and their associations, business associations, industry associations, the media and tertiary institutions require ongoing professional development initiated by the peak body, supported by government agencies and delivered by appropriately trained facilitators, to dispel misinformation and develop informed knowledge about the co-operative model. By building the institutional strength of the peak body, combined with the public policy support of government agencies and informing the professional ‘gate keepers’ about the strengths of the co-operative model, the agricultural co-operative sector can be legitimised and rejuvenated. This can lead to a virtuous circle of social and economic advantages for rural and regional communities in Western Australia. Without such a public policy framework for agricultural co-operatives, Western Australian farmers will be denied choice in the range of business structures available to suit their particular needs.

Limitations of the Thesis

This thesis was an exploratory study of various issues affecting the contemporary Western Australian agricultural co-operative sector. The research adopted a qualitative research methodology that enabled the researcher to explore, examine, and describe an agricultural co-operative and the wider agricultural co-operative sector in depth. The case study methodology provided the thesis with rich and meaningful data that would not have been obtained by other research methodologies (Patton, 1990). Nevertheless, the thesis revealed that the qualitative case study methodology had several disadvantages.

While the case study methodology enabled a holistic approach to reflect the complex reality of the agricultural co-operative sector, the breadth of the investigation and diversity of information at times became overwhelming. From time to time, the vast quantity of material made it difficult to focus on the main purpose of the thesis. As the case study methodology acknowledged multiple realities of different interviewees (Patton, 1990), at times it became difficult to

reconcile the diverse perspectives of interviewees and determine how representative they were of views held by actors in the wider agricultural co-operative sector. While the in-depth interviews extracted confidential and sensitive information, the interpretation of this information by the researcher was to some extent subjective, another accepted limitation of the case study methodology (Patton, 1990). Further, it is acknowledged by the researcher that the research may have been influenced and possibly manipulated by interviewees (Patton, 1990), particularly as the thesis was highly dependent on only a few interviewees for significant parts. This dependence often did not allow independent verification of data, another potential disadvantage of the case study methodology. Additionally, interviewee confidentiality demanded by academic research, when undertaking a case study with relatively few co-operatives and actors, required careful attention and management by the researcher.

The four years dedicated to this research exposed another limitation of the case study method. Many changes occurred within organisations that were central to the research, particularly with some key interviewees leaving their positions. The researcher was required to work with the organisational and actor changes as they presented themselves. Further, these changes had to be accommodated during the writing phases as they often had significant implications for the conclusions of the thesis.

Lastly, while the case study methodology allowed the researcher to learn a great deal about a particular case (Patton, 1990), this thesis demonstrated that it may be inappropriate to generalise beyond that case. The UFCC experiences documented in this thesis were unique to that co-operative and do not necessarily provide insights to the evolution of other agricultural co-operatives.

Future Research

As an exploratory study, this thesis points to several areas of further research about Australian agricultural co-operatives. The research focused on actors who had close associations with an agricultural co-operative or the co-operative movement. It did not widely canvass the views of agricultural co-operative members about the co-operative business model. The proposed typology of farmers' attitudes to agricultural co-operatives outlined in Appendix Four deserves further research to determine if it does capture different farmer views about the co-operative model.

Ascertaining farmer views about the validity of the co-operative model would assist policy makers and the peak body develop strategies to build the Western Australian co-operative movement.

Secondly, the thesis noted a lack of agricultural industry public policy development for the co-operative model. Further research is required about Australian agricultural co-operatives to provide directions for government agencies to develop public policy encompassing the agricultural co-operative sector.

Thirdly, the research suggested that agricultural co-operatives can have a positive impact on the social and economic well-being of rural communities adjusting to the effects of significant agricultural industry restructuring. This potential role deserves further attention as a research focus.

Fourthly, this thesis did not examine the opinions of women in agriculture about the co-operative model. Women may perceive agricultural co-operatives quite differently from the views expressed by the male interviewees in this thesis and their views may provide valuable insights for public policy development.

Lastly, this research revealed a deficit in basic data in Australia about the agricultural co-operative sector. There is a dearth in aggregate information about Western Australia's agricultural co-operatives such as, for example, business turnover, rebate strategies, membership size, Board of Director composition and size, CEO remuneration strategies, the influence of co-operative values on the development of business strategies, agricultural co-operative involvement in the community and the economic impact of the co-operative on the community. Collection of this information is an important research task to establish benchmarks by which to chart the future progress of the agricultural co-operative sector in Western Australia.

APPENDICES

APPENDIX 1

Background to the Thesis

In 2000, Edith Cowan University and the Western Australian Department of Agriculture submitted a proposal to fund a PhD to the Australian Research Council. The proposal stated that:

‘This project will examine the potential of New Generation Co-operatives (NGCs) to contribute to the revival of Australian rural communities. NGCs offer farmers the prospect of increased incomes by adding value to their agricultural outputs through downstream processing. NGCs may also provide significant flow-on benefits for rural communities by enhancing levels of local economic activity. The project will assist agencies such as the Industry Partner to assess the opportunities and obstacles facing NGCs in Australia. The project should also contribute to the development of policies and strategies that could, where appropriate, facilitate the establishment of NGCs in rural communities.

The proposal was the outcome of considerable attention by the Western Australian Department of Agriculture in the mid to late 1990s about the potential of the NGC model for the Australian agricultural industry. At the time, two emerging agricultural co-operatives were exploring the NGC model and it was envisaged that these organisations would serve as case studies for the empirical component of the research.

The Australian Research Council endorsed and funded the proposal and formal PhD research commenced in March 2001. On the basis that the research was to be oriented towards the NGC model, a research proposal was prepared and submitted in October 2001 to the university and subsequently endorsed by external examiners. However, by the beginning of the second year of study it became clear that the NGC case studies were not progressing as anticipated. One potential case study did not choose the NGC model, and the second one was aspiring to achieve the status of an NGC by incrementally working towards this structure over a long term period.

This presented difficulties for the planned empirical component of the research as it was evident that the agriculture industry in Western Australia was not adopting the NGC model. In addition, an unexpected change in the Western Australian government occurred in early 2001. The implications of this change of government for agricultural co-operatives emerged slowly. Over time, the initial enthusiasm in sections of the Department of Agriculture for the NGC model increasingly drifted onto other priorities and initiatives. These events resulted in a loss of direction in the research that took some time to assess and work through. It was a significant conceptual leap to understand after 15 months or so that the project was not about NGCs.

Part way through the second year of the research, the decision was made to broaden the research from the specific NGC model to explore agricultural co-operatives in Western Australia in a broader manner. This thesis is the outcome of this decision to undertake a wider exploratory analysis of the Western Australian agricultural co-operative sector.

APPENDIX 2

Evolution of Legislation for Co-operative Business Structures

Introduction

The legislative backdrop to co-operatives in Australia occurs at two levels of government. At the Commonwealth government level, a range of broader pieces of legislation, such as the *Income Tax Assessment Act 1936*, the *Corporations Act 2001*, and the *Trade Practices Act 1974* impact upon co-operatives. Specific legislation to facilitate co-operative incorporation and registration also exists within each Australian State. The purpose of this discussion is to draw together a narrative of developments, over the last decade or so, in enacting updated State co-operative legislation for the incorporation and governance of co-operatives.

Australian experiences with co-operative legislation

The first co-operatives legislation in Australia was the Western Australian *Co-operative and Provident Societies Act 1903*. Most Australian States had co-operative legislation prior to WWII, with the exception of Victoria, which did not enact specific co-operative legislation until 1953.¹⁸³ These original examples of co-operative legislation at the State level and a specific section of the Commonwealth *Income Tax Assessment Act 1936* relating to agricultural co-operatives reflect a favourable legal environment for co-operatives in the first half of the 20th century.

During the late 1980s, discussion on co-operative legislation began to percolate amongst the State Co-operative Federations, particularly in relation to

183 This explains why several large Victorian based agricultural co-operatives, such as Murray Goulburn, a dairy co-operative, incorporated under their then State based *Corporations Law* rather than under co-operative legislation. Although registered as corporations, these early Victorian co-operatives were structured internally as co-operatives. Akin to co-operatives registered via co-operative legislation, these organisations were able to qualify as co-operatives for taxation purposes as the Commonwealth *Income Tax Assessment Act 1936* contained several sections specifically related to agricultural co-operatives.

agricultural co-operatives, about updating the existing Acts (Victoria, 1996). These talks arose from frustration with inconsistencies in extant State-based legislation, particularly related to the inability of co-operatives to operate across State borders, register new members from outside the home State, overcome inconsistencies between the co-operative principles and modern business behaviour and capital raising issues (New South Wales, 1992).

The process for reviewing co-operative legislation formally commenced in 1990. State Ministers for Agriculture agreed to seek the support of their respective Attorneys-General to examine existing co-operative legislation and with a view to introduce nationally consistent legislation to enable co-operatives to operate across State borders (Victoria, 1996).¹⁸⁴ New South Wales had already commenced a review of its 1923 legislation in 1989 (New South Wales, 1992). The legislation enacted by the NSW government in 1992 sought to address concerns identified in the former legislation by introducing an innovative capital raising mechanism known as a 'co-operative capital unit' (New South Wales Department of Fair Trading, 1997a).¹⁸⁵

In the period 1990 to 1996, a State and Commonwealth Attorneys-General working party explored options for nationally consistent legislation via either template legislation, similar common legislation or identical legislation in each State. The working party recommended the adoption of common core provisions (CCPs) by each State. In 1996, the Attorneys-General Standing Committee agreed that each State and Territory sign the Consistent Co-operatives Laws Agreement to enable them to enact co-operatives legislation containing the agreed core consistent provisions (Victoria, 1996).

Key elements of the CCP legislation concerned a definition of active membership and removal of non-active members; enshrining the ICA co-operative principles; introducing the status of 'natural person' and removing the concept of

184 At that time in most states the co-operatives legislation fell under the portfolio of the Attorneys-General, in the Department of Justice. The *Co-operative and Provident Societies Act 1903* was transferred from the Western Australian Justice Department to the Department of Consumer and Employment Protection. The *Companies (Co-operative) Act 1943* has been under the Consumer Affairs portfolio for some time. In most Australian States, co-operative legislation has been reassigned from the Attorneys-General to similar Departments of Fair Trading or Consumer Affairs.

185 Co-operative Capital Units are discussed in a following section.

'*ultra vires*'; introducing different classes of shares; voting based on membership, and stronger regulatory mechanisms for addressing inappropriate organisational behaviour. The CCP legislation also introduced two categories of co-operative - trading and non-trading. Non-trading co-operatives were not-for-profit organisations formed for a wider community benefit, while trading co-operatives were the commercially oriented co-operatives, such as agricultural co-operatives. Trading co-operatives gave distributions on share capital while non-trading co-operatives did not (Victoria, 1996).¹⁸⁶

The Working Party also endorsed a mechanism to clarify the relationship between the new co-operatives CCP legislation and predecessors of the *Corporations Act 2001*. This was to be achieved via a 'roll back' of a section of the *Corporations Act 2001* so that it did not apply to capital raising activities of co-operatives. It was proposed that this would be enacted once each State had CCP co-operative legislation in place (Victoria, 1996).¹⁸⁷

Victoria was the first State to introduce the new co-operatives legislation based on the CCP concept. The Victorian legislation was to form the basis of new CCP co-operatives legislation in other States (Victoria, 1996). The CCP legislation did not include the CCU instrument contained in the New South Wales legislation. New South Wales amended its 1992 legislation in 1997 to mirror the CCP legislation and ensure subsequent compatibility with the proposed *Corporations Act 2001* changes (New South Wales, 1995; New South Wales Department of Fair Trading, 1997b). Over the next few years, most Australian States introduced co-operatives CCP legislation or amendments to ensure compatibility with CCP legislation. Western Australia remained the only Australian State without new CCP based co-operatives legislation.

186 In the event the co-operative is wound up, members receive the nominal value of their shares.

187 This matter becomes more important in the later discussion on activities related to Western Australian co-operative legislation.

The round of legislative changes in this period resulted in the following:

- New South Wales *Co-operatives Legislation Amendment Act 1999*
- Queensland *Co-operatives Act 1997*
- South Australia *Co-operatives Act 1997*
- Victoria *Co-operatives Act 1996*
- Tasmania *Co-operatives Act 1999*

The discourse in Parliamentary Debates in various Australian State jurisdictions about introducing the new CCP legislation demonstrated the potential appeal of the co-operative model to both sides of Australian politics. For the left, the Labor Party, co-operatives offered a mechanism for local control and a structure to promote democracy and a blend of social and economic goals in regional communities. On the right, co-operatives were consistent with neoclassical economic theory in that they promoted enterprise and confidence in the merits of the private sector. In both scenarios, co-operatives enabled the local community to engage with the globalised capitalist economy. Unfortunately, this rhetoric has not overly impacted on the development of public policy for co-operatives in these jurisdictions.

While each State was engaged with drafting and implementing their version of CCP legislation, another development was brewing. The objective of the decade of CCP legislation, now enacted in most States, was to achieve some form of consistency in co-operatives legislation. However, ongoing irregularities persisted. The inability to enable co-operatives to trade and raise funds across State borders, to register new members from interstate and ongoing fund raising problems, despite the enactment of CCP legislation, continued as a major inhibitor to trading co-operative development. (National Co-op Update, 2000). It became apparent that the original triggers for the development of CCP legislation had not been resolved.

These legislative difficulties came to the notice of the Ministerial Council on Consumer Affairs that established a new working party in 2001 to recommend changes to achieve nationally consistent co-operative legislation.¹⁸⁸ Following consultation with the Co-operative Federations in each State, the working party

¹⁸⁸ Responsibility for co-operative legislation had moved during the decade of legislation reform from the Standing Committee of Attorneys-General to the Ministerial Council of Consumer Affairs.

reconfirmed the CCP approach as the appropriate strategy for achieving national consistency. However, the working party agreed to amend the CCP in two areas. Firstly, it included the New South Wales concept of CCUs (Given, 2001). To minimise some awkward cross-State administrative mechanisms, the CCP also incorporated principles of mutual recognition. In the longer term, the review hinted that the Ministerial Council on Consumer Affairs may develop template legislation to replace the similar style CCPs co-operative legislation (National Co-op Update, 2001).

Co-operative Capital Units (CCUs)¹⁸⁹

In 2001, the Ministerial Council on Consumer Affairs agreed to introduce a mechanism known as Co-operative Capital Units into the CCP legislation. The purpose of the inclusion of the CCUs into the CCP legislation was to widen the capital raising ability of co-operatives (Ministerial Council on Consumer Affairs, 2003). CCUs were first considered in the 1989 New South Wales government review of the *Co-operation Act 1923* and were subsequently incorporated into the 1992 co-operative legislation (New South Wales Department of Fair Trading, 1997a).

CCUs are a 'hybrid' capital raising instrument, comprising components of both a debt and an equity instrument, falling anywhere between these two extremes. A CCU can be defined as neither equity finance nor debt.¹⁹⁰ In creating a new instrument for capital raising, the proponents recognised the risks associated with allowing external investors to invest in a co-operative, particularly in relation to marginalising member control and undermining co-operative principles. While the New South Wales Department of Fair Trading believed that they had addressed this concern, the proposed introduction of CCUs into the CCP legislation was a point of contention for some State representatives (Given, 2004, 2001). Concern about corroding co-operative principles by inviting outsider investors into the co-operative remained. This argument was countered by the New South Wales experience which

189 For further information on Co-operative Capital Units, refer to the NSW Consumer Affairs website www.fairtrading.nsw.gov.au.

190 The difference between equity finance and debt is apparent when a corporate body is wound up. Individuals who lent funds (ie own a debt instrument) are entitled to be paid in full before the shareholders who own the equity investment (Ford et al., 1997).

claimed that the integrity of the co-operative principles were maintained with appropriate legislative mechanisms (New South Wales Department of Fair Trading, 1997a).

New South Wales has over a decade of experience with CCUs. However, CCUs have not been adopted with great enthusiasm by NSW trading co-operatives. Less than ten NSW registered co-operatives have adopted the mechanism (Given, 2004, 2001). The focus on co-operative capital raising highlights the dominance of this issue in the literature and public policy in Australia.¹⁹¹ Yet, the minimal uptake of CCUs demonstrates that co-operatives have resolved their capital raising issues in alternative ways. This indicates that capital raising is not as significant a problem as is sometimes suggested in the literature.

Nevertheless, the incorporation of the CCU mechanism in the proposed Western Australian co-operative legislation will provide co-operatives with another option for capital raising. The research has identified one area in which it may be a useful tool (Booth, 2004). A proposed value adding agricultural co-operative with a significant rural community focus has two co-operative proponents who are not farmers. The existing co-operative legislative prohibits investors from becoming members of the co-operative. The CCU mechanism may provide the vehicle for non-farm community people to contribute by investing in the proposed co-operative and potentially sharing in its benefits (Booth, 2004).

It is apparent that after more than a decade of reform in co-operative legislation to achieve some level of uniformity, co-operatives were still confronting problems associated with inconsistent legislation that has not delivered a co-operative friendly legislation framework. While the drive to develop CCP legislation in each State was admirable, the outcome was that it was an inappropriate mechanism to attain nationally consistent co-operative legislation. As each State 'leap frogged' to introduce CCP amendments, massaged to suit their particular State based matters, it was unavoidable that there would be ongoing inconsistencies in the CCP legislation.

191 See Chapter Two for a theoretical discussion on capital raising issues for agricultural co-operatives. See Chapter Eight on the UFCC approach to capital raising, which suggests that this issue may be overstated.

Template Legislation

The solution lay in adopting template legislation. The September 2005 Ministerial Council on Consumer Affairs meeting acknowledged that the CCP approach was unable to ensure consistency in co-operative legislation in each State, and replaced it with a strategy of template legislation (Ministerial Council on Consumer Affairs, 2005). The Queensland legislation became the template model for legislation in other Australian States.

While all this activity was occurring elsewhere, progress to enact new legislative in Western Australia was erratic. Without CCP or template co-operative legislation enacted in Western Australia, the proposed 'roll back' of the *Corporations Act 2001* to address capital raising difficulties for co-operatives, endorsed by the Attorneys-General Standing Committee in 1996, could not be implemented (Booth, 2004). While the delay in the *Corporations Act 2001* roll back would appear to be a major issue for each State Co-operative Federation, and that other States would be pressuring the Western Australian government and the CFWA to implement new legislation, it has not been a significant item in co-operative newsletters or discussions with interviewees conducted for this research. This silence further suggests that the inability of co-operatives to raise capital has been over-played by some co-operative commentators and academics.

Developments in Western Australia

Booth (2004) advised in mid 2001 that the Western Australian co-operative bill had been drafted, using the Victorian legislation as a model.¹⁹² He added that while the Victorian Act had the right sentiments by incorporating the co-operative principles, at the 'nuts and bolts' level it had been poorly drafted and was not acceptable for the Western Australian co-operative movement, particularly for commercial co-operatives. He supported his views with experiences in Victoria, stating that newly forming commercial co-operatives in Victoria still tended to use the Commonwealth *Corporations Act 2001* to incorporate and built the co-operative

¹⁹² At the time, the Victorian Act was the model for other states to emulate. The Queensland Act subsequently replaced the Victorian Act as the model for other Australian State legislation.

principles into their Articles, rather than use the new State-based co-operatives legislation.

In the early period of research on this project, intermittent advice from Interviewee 678 (2003), an officer within the Department of Consumer and Employment Protection responsible for registering co-operatives, did not progress beyond commenting that the proposed legislation was going to be implemented at the next sitting of Parliament. He qualified this by acknowledging that it still had to make it onto the list of impending legislation. He expressed a view that the delay in progressing the new Act reflected the low priority of co-operatives for the Western Australian government.

In this phase, Interviewee 680 (2003), from the Department of Agriculture, also advised that the draft legislation had been written and sent to the parliamentary drafters. Interviewee 681 (2001), from the same Department, later stated that the legislation was in the second drafting stage indicating that it had progressed reasonably well. However, Interviewee 680 (2003) subsequently advised that it had been ‘bumped off’ twice despite it being ready to progress further to the ‘approval to draft’ stage. He further advised that it had been delayed so long that it now required a Cabinet submission to get it back to the ‘approval to draft’ stage, then to present it as a bill and then to become legislation. The see-sawing of the draft legislation over a two year period resulted in it becoming an orphan in which no particular Department felt it had to take responsibility for ensuring the passage of the legislation.

In May 2003, the CFWA’s lead article in its newsletter contained an encouraging update on the progress of updated co-operative legislation (Co-operative Federation of Western Australia, 2003a). The item advised that the proposed co-operative bill had been placed on a priority listing ready for drafting and possible implementation in 2004. The development was attributed to the CFWA’s gentle and ‘behind the scenes’ lobbying for the new legislation. Concurrently, as discussed above, the Ministerial Council on Consumer Affairs also had the issue of co-operatives template legislation high on its agenda, which certainly was a powerful influence in advancing Western Australia’s rather noncompliant position on updated co-operatives legislation.

The lack of outcry by Western Australian co-operatives about on-going delays in enacting new legislation can partly be attributed to the efficacy of the existing *Companies (Co-operative) Act 1943* legislation (Booth, 2004). Booth (2004) commented that this legislation, despite being 60 years old, was very flexible and able to accommodate the unique and specific needs of each co-operative. While the Western Australian *Corporations (Co-operative) Act 1943* was very extensive, Booth argued that it did not 'prescribe' what a co-operative had to do. As Western Australia has less than sixty functioning co-operatives, almost every new one was a distinctive organisation confronting a range of specific issues. The flexibility in the existing legislation provided the scope for each new co-operative to develop its internal systems, for example, classes of shares, share allocations and capital raising strategies, to suit its unique circumstances. He further argued that it also contained several of the features that the proposed CCP legislation was seeking to introduce. These included the status of 'natural persons', the ability to have different classes of shares, to form partnerships or joint ventures with non-co-operative organisations and have a limited number of non-farm members as Board Directors, and, borrowed from the *Corporations Act*, the ability to assign 'individual property rights' to retained equity through a share allocation mechanism. He attributed this flexibility to the historical development of the Act, as it was based on the former Western Australian Corporations Law, and therefore, was essentially a piece of corporations' law. According to Booth, the accommodating nature of the existing legislation was a great asset to for Western Australian co-operatives.

Perhaps these features of the existing legislation meant the Western Australian co-operative movement did not have a problem that needed fixing. However, although the existing Western Australian legislation did not hold up the incorporation of new co-operatives, the Western Australian government's delay in introducing new legislation placed an administrative burden on new co-operatives developing their internal structures and mechanisms to comply with the existing legislation as well as ensuring that they were not disadvantaging themselves under the proposed legislation.

As of early 2006, Western Australia still does not have new legislation to replace the *Companies (Co-operative) Act 1943*, although the issue has become more prominent in both government, the CFWA and the co-operative movement. The

Western Australian Department of Consumer and Employment Protection established an Industry Reference Group in 2004 with representatives from the CFWA and co-operative businesses to work through matters that had contributed to the slow evolution of the proposed legislation.

Although Western Australia has signed a Ministerial Council of Consumer Affairs agreement on template legislation, it was not going to fully adopt the Queensland template. According to Newcombe (2005), and not directly related to the proposed co-operatives legislation, it was not politically acceptable to the Liberal and National Parties to adopt template legislation as it gave away their right to scrutinise proposed legislation (Newcombe, 2005). Additionally, the Industry Reference Group had identified several concerns with some provisions in the template legislation. As a result, the Group determined that it was going to develop Western Australian specific legislation. Some of the proposed changes were significant shifts from the template legislation, while others focused more on operational issues for co-operatives transitioning from the existing legislation to the proposed legislation.

When enacted, the CFWA advises that the new legislation will result in:

- changes to current Western Australian co-operative accounting practices.
- new capital raising procedures by the substitution of 'information statements' for 'prospectuses'.
- the emergence of 'national co-operatives' by the removal of legal complications on cross border membership recruitment;
- increased flexibility for capital raising by the issue of subordinated debt instruments, 'Co-operative Capital Units' (CCU's), which under certain circumstances can be listed on a stock exchange.
- continuing the practice of issuing non voting classes of shares.
- the introduction of a 'non-distributing' or 'non-trading' class of co-operatives which are relevant to social and community activities. (Co-operative Federation of Western Australia, 2005a, p 3)

The formation of the Industry Working Group reflects a growing ability of the CFWA and the co-operative movement to lobby the Western Australian government about issues of significance to co-operatives. Assuming that its priority

listing is maintained, Western Australia can expect new legislation within the foreseeable future.

The principles underpinning co-operative legislation

There is no requirement to have specific co-operative legislation, as a co-operative can be incorporated under any legal form that can accommodate the definition and features of a co-operative in its internal statutes, such as under the *Corporations Act 2001*. According to Interviewee 696, a legal academic, there are a number of advantages in using the *Corporations Act 2001* over State-based co-operative legislation. It is, he contends, easier to use this law, as more people are familiar with it; there is a large body of literature associated with it; it is relatively easy to form a company; and it is nationally based and underpinned by regulatory control of Australian Securities and Investment Commission (ASIC). In contrast, he argues, State-based co-operative legislation is not very efficient as it is not well resourced and there are few professional advisors with the necessary knowledge of its legal requirements. The legal academic queried the need to have State-based co-operative legislation when all the benefits of the *Corporations Act* were available to co-operatives. While he acknowledged the history of the co-operative movement, he was curious why Australian States still retained co-operative legislation. He recognised that there is some symbolic importance in having separate co-operative legislation for co-operative members; however, from a legal or contracting position, he argued that there is no real reason to have it.

Interviewee 822 (2002) agrees that the *Corporations Act 2001* can accommodate all the elements required for an agricultural co-operative, together with the attendant advantages identified by Interviewee 696 (2002). The only disadvantage Interviewee 822 (2002) identified was that incorporating under this Act removed the ability to name the resultant entity a 'co-operative' as only entities incorporated under the *Western Australian Companies (Co-operative) Act 1943* could legally use this name. Differing from Booth's views, Interviewee 822 believed that *Companies (Co-operative) Act 1943*, due to it being legislation enacted in the 1940s, lacked the flexibility and the benefits of updated amendments for corporations available under the Commonwealth Act. Based on his experience of working with agricultural co-operatives wishing to explore organisational structural options to

overcome these deficits in the Western Australian Act, but not necessarily to corporatise, he identified a deep-seated fear by some co-operative actors towards the *Corporations Act 2001* and found it difficult to convey the advantages of using it. He commented that solicitors working with co-operatives need to develop an understanding of and sensitivity towards the ideological basis of agricultural co-operatives when working with actors from these organisations.

The supranational bodies developing policy guiding principles for co-operative legislation do not support this view that there is really no need for dedicated co-operative legislation. The International Labor Organisation (1998) developed a framework for co-operative legislation in 1998. In the following years, the United Nations drafted and subsequently endorsed Guidelines Aimed at Creating a Supportive Environment for the Development of Co-operatives drawn up by Committee for the Promotion and Advancement of Co-operatives (COPAC) (United Nations, 2001). Essentially the guidelines highlight that co-operatives should be recognised as distinct legal entities under their own dedicated co-operatives legislation (United Nations, 2001). The Statement on the Co-operative Identity adopted by the International Co-operative Alliance in 1995 also proposed co-operative legislation as a key element in the co-operative identity. The United Nations (2001) guidelines also recommend that the co-operative sector and peak bodies participate in the drafting of co-operative legislation.

The CCP and template legislation in Australia meets most of the United Nations guidelines for co-operative legislation. Co-operative principles were first enshrined in the Victorian co-operatives CCP legislation in 1997. Separate legal entity status was incorporated into the 1992 New South Wales legislation and duplicated in the Victorian legislation. The involvement of the peak bodies in the co-operative sector has been part of the process in reviewing co-operatives legislation from the late 1980s; indeed the review process commenced from the co-operative sector. Co-operatives have dedicated legislation, as for-profit enterprises have dedicated legislation. However, the ICA identified that governments do not provide a supportive framework for co-operatives equivalent to that provided for corporate structures (International Co-operative Alliance, 1999). To illustrate, the level of government support for small business development (such as the Business Enterprise Centres and Small Business Development Centre) demonstrates the divide between

the government support for private for-profit business structures and the level of support for co-operative structures.

Conclusion

Chapter Six concluded that Western Australia generally lacks a public policy framework that is favourable towards the agricultural co-operative sector. One area, however, where the co-operative movement has been fortunate is in the continuation of some form of legislation for co-operative businesses from the beginning of the 20th century. Across Australia, with the exception of Western Australia, legislation for co-operatives has been updated in the last decade to reflect contemporary conditions for co-operative businesses and to reinforce the centrality of the co-operative principles. The long process to enact revised co-operatives legislation in Western Australia can be partly attributed to the co-operative movement's satisfaction with the existing legislation. However, its lack of progress also reflects the low priority of the co-operative movement for the Western Australian government, along with the inability of the CFWA to exert influence on behalf of the co-operative movement in this arena.

APPENDIX 3

Agricultural Co-operatives Study Tours and Seminars

Introduction

The purpose of this appendix is two fold. Firstly, it explores the role of study tours and seminars in building knowledge and stimulating the adoption of the agricultural co-operative model among actors in, or associated with, the agricultural industry. Secondly, the discussion examines the role of government in initiating study tours.¹⁹³

During the latter period of the Western Australian Coalition Government, from about 1996 to 2001, the Department of Agriculture funded several study tours to the United States and Canada to observe the New Generation Co-operative (NGC) model. Additionally, the Department hosted a number of seminar presentations by United States NGC proponents and academics in Western Australia. Based on interviewees' recollections, the following table summarises anecdotal information about the sequence of various study tours and seminar presentations tours and seminars.

193 Information for this section is based almost solely on field notes taken during interviewee discussions, as very little written information about these tours or seminars has been located. Where possible, statements of 'fact' have been verified by other interviews. However, the narrative may inadvertently contain errors.

Illustrative Outline of Study Tours and Seminars 1996-2002

| Date | Event |
|----------------------------|---|
| August 1996 | As part of the 'Doing More with Agriculture' program, the Department of Agriculture conducted a study tour of Western Australian agricultural industry actors to North Dakota, South Dakota, and Minnesota to observe rural community economic development initiatives. NGCs were observed as a potential tool for community development. |
| 23 April 1998 | Professor Michael Cook delivered a seminar in Perth hosted by the Department of Agriculture on the NGC model. A representative of a United States NGC accompanied Professor Cook. ¹⁹⁴ |
| 30 March 1999 | Professor Michael Cook delivered a lecture at the Hyatt Hotel in Perth on the NGC model, organised by Glen Thompson of Global Linkages. A representative of another United States NGC accompanied Professor Cook. |
| 21 August-6 September 1999 | The Department of Agriculture conducted a study tour of Western Australian agricultural industry and co-operative movement actors to North Dakota, South Dakota, and Minnesota to specifically investigate the NGC model. |
| March 2001 | Glen Thompson, Global Linkages, organised Professor Michael Cook to deliver a seminar at a Sydney conference on the NGC model. |
| September 2001 | The Department of Agriculture hosted a lecture in Perth by Dr Alan Frampton of a New Zealand dairy co-operative about the NGC model. |
| 2001 | The Department of Agriculture coordinated and funded a conference in Perth for Rural Company Directors, including agricultural co-operative Directors. |
| 2002 | The Dairy Research and Development Corporation funded a study tour for Australian dairy industry actors of the international dairy industry and the role of co-operatives, including NGCs. The CEO of the Challenge Dairy Co-operative was a delegate in this tour. |

Apart from a brief report to the 'Doing More with Agriculture' program (Western Australian Department of Agriculture, 1998) and by a participant to his professional association (Interviewee 689, 2002), additional written information about these NGC focused study tours and seminars was not located.¹⁹⁵

¹⁹⁴ Based on interviewee recollections, the CEOs of the South Dakota Soybean Co-operative and North Dakota Pasta Co-operative also participated in these Perth seminars with Professor Cook.

¹⁹⁵ The Department of Agriculture was unable to meet a request for additional information on the sequencing of these study tours and seminars. This was attributed to the change of government in February 2001, when much historical information was lost in the period of government hand over.

In addition to these study tours and seminars, some interviewees also participated in other study tours. Tours were organised and partially funded by agricultural industry research and development corporations, such as the Dairy Research and Development Corporation (DRDC), large co-operatives and Statutory Marketing Authorities (SMAs), such as CBH and the Grain Pool, agribusiness companies such as National Foods and academic institutions such as Monash University Agribusiness Department. Unlike the Department of Agriculture study tours; these tours had a broader focus than NGCs.

The first encounter by Western Australians with the NGC model was via the 1996 study tour to Canada and the United States (Booth, 2004; Interviewee 695, 2003). The purpose of that study tour was to consider rural community economic development models under the 'Doing More with Agriculture' program, which was part of an initiative known as Progress Rural. United States representatives exhibited the NGC model as a very successful demonstration of rural community economic development.

The impact of the NGC model on the delegates was clearly quite significant as a further Department of Agriculture trip to North America was conducted in 1999 titled 'Progress Rural Value Adding Study Tour'. The purpose of the study tours was to observe the NGC model as an organisational structure for the commercial development of farmers, rather than as a community economic development strategy (Interviewee 653, 2003; Interviewee 689, 2002; Interviewee 695, 2003).

The study tours stimulated ongoing interest as the Department of Agriculture hosted two lecture tours by the United States agricultural co-operative academic, Professor Michael Cook and an NGC Chairman, Mr Michael Warner in the same time frame. A number of interviewees also attended these seminars on the NGC model. These study tours and seminars were partially funded from a pool of funds that were accumulated via the former Rural Adjustment and Finance Corporation (RAFCOR) scheme in which funds repaid by farmers had accumulated in a trust account to about \$75 million (Interviewee 682, 2003).

The agricultural co-operative model, including the NGC model, was also evaluated by a small group of dairy farmers from the south west of Western Australia (Interviewee 654, 2003). These dairy farmers were seeking alternative approaches for their industry before the anticipated deregulation of the dairy SMA. The Dairy

Structural Adjustment Program, established to facilitate dairy industry deregulation and administered via the Western Australian Department of Agriculture, partially funded these tours.

Participant Observations of the Study Tours and Seminars

Participants in the study tours generally indicated that the tours were more worthwhile than anticipated. Interviewees commented that the study tours exposed them to new concepts that would not have occurred without direct observation of organisational innovation in the agricultural industry of other industrialised countries. New relationships were developed with key people associated with agricultural co-operatives. Awareness was created in the United States and Canada that actors in the Western Australian agricultural industry were interested in developing knowledge of the co-operative model, which triggered the reciprocal trips to deliver seminars in Perth and regional Western Australia.

The interview discussions with actors from agribusiness, such as farm management advisors, accountants and bankers, highlighted that knowledge of the co-operative model is marginal in this advisor group. They received very limited, if any, undergraduate training in the agricultural co-operative model and minimal subsequent professional development on its economic contribution to the agricultural industry. Therefore, the study tours provided this group with positive experiences of overseas co-operative businesses. The NGC model, with its modifications to the traditional agricultural co-operative model based on incorporating elements of the IOF structure to address alleged deficits, appealed to this segment.

The impact of the study tours on this segment is significant. Western Australian farmers are highly accustomed to seeking the advice of agribusiness advisors and as a result, the advisors can have a significant influence over business strategies implemented by producers. By participating in the study tours or seminars, this professional advisor segment enhanced their knowledge base and therefore potentially, their ability to advise farmer groups on the co-operative model as a commercial alternative.

An actor associated with an agricultural co-operative considered that the study tours developed a strong knowledge of the NGC model and co-operative

principles (Interviewee 652, 2003). He subsequently encouraged all the co-operative Board members to undertake study tours of NGCs and the agricultural industry internationally. While the cost of this may be high, Interviewee 652 (2003) believed that it would return dividends to the co-operative, as the Board would be very clear about the philosophy and purpose of a co-operative and the NGC variation. He thought that developing this knowledge would ensure that the Board was not tempted in the future to convert the co-operative to a corporate structure (Interviewee 652, 2003).

The interviewee also thought senior executive staff benefited from study tours. The CEO of this co-operative subsequently participated in a trip to the United States to observe the NGC model. According to Interviewee 652 (2003), the CEO returned with a solid understanding the co-operative philosophy and what an NGC could achieve. The interviewee reflected that the development of the CEO knowledge of the philosophical underpinning of co-operatives and the NGC model was a form of insurance against potential pressure from within the organisation to convert the co-operative into a corporation. The CEO also confirmed the advantage of the study tours (Interviewee 654, 2003). He wrote a report to the Board of his experiences of the NGC model in the United States and how elements could be incorporated into the Western Australian agricultural co-operative (Interviewee 654, 2003). According to Interviewee 654 (2003), developing the intellectual capital Board members and the CEO by participating in study tours resulted in the co-operative gaining a direct and observable benefit that was able to be translated into an economic benefit for the broader industry.

Discussions with participants who attended the lectures presented by Professor Michael Cook and the CEOs of NGCs indicated that these presenters were powerfully motivating, almost evangelical, speakers who transferred considerable enthusiasm about the NGC model to the audience (Interviewee 695, 2003). Even after three or four years or so, participants quite readily recalled Professor Cook's five problems with the traditional agricultural model and how the NGC model alleviated these difficulties (Interviewee 689, 2002).

Knowledge Transfer

There is little doubt that the flurry of study tours and seminars concerning co-operatives, particularly the NGC model, stimulated a high level of interest in the agricultural industry about the co-operative model. However, over the years it appears to not have translated into any sustained interest or action by primary producers to duplicate the NGC model in Western Australia, possibly with the exception of one agricultural co-operative.

To illustrate, the participants of one tour agreed that each participant would write up issues of interest to be collated into a report (Interviewee 689, 2002). Despite good intentions, one or two participants wrote the final report and distributed it to tour members.¹⁹⁶ According to Interviewee 689 (2002), the report summarised the tour, the features of the NGC model, factors which contributed to its success in the United States and why it may or may not work in Western Australia. Additionally, each participant agreed to speak at three industry forums to share information about NGCs. However, according to the interviewee, this also did not occur with most participants (Interviewee 689, 2002).

This research notes that the proponents of the study tours, that is, the Department of Agriculture, did not build in a strategy for subsequent knowledge transfer at the completion of the tours. The inability of most delegates to share their new co-operative knowledge with the broader industry is worthy of note. From a co-operative theory perspective, it can be understood as the result of lack of a bottom up stimulus driving the initiative of study tours to investigate the agricultural co-operative model. Theory suggests that co-operatives are best developed when proponents (co-operative champions) form them, as a direct response to a perceived need and for their own benefit (Craig, 1993). A Western Australian government agency took a leading role in initiating the study tours to observe the NGC model. No doubt, this was well intentioned, particularly in the absence of the industry itself evaluating co-operative strategies on response to the advancing influence of globalisation. However, the limited action in the period following the study tours suggests that a 'top down' approach does not build long-term sustainability into a good intention. Co-operative theory argues that it is more appropriate for

¹⁹⁶ Unfortunately, the author was unable to locate a copy of this report.

government agencies to respond to the request of co-operative champions to assist in funding elements of feasibility studies, such as gathering information of overseas experiences. Empirical evidence of the Challenge Dairy Co-operative supports this. The Challenge Dairy Co-operative, in its formative stage, sought and received government support to explore dairy industry best practice internationally. This included the NGC model. The Challenge Dairy Co-operative is the only co-operative in Western Australia that has a direct link to the short period of co-operative study tours in the late 1990s.

Fate of Study Tours

The study tours did not continue following the election of the new Western Australian Labor Government in February 2001. According to Interviewee 682 (2003), this was attributed to a number of factors. Firstly, he stated that the trust fund which had funded the study tours had been depleted and even if the Coalition Government had retained office, the funding for the study tours would have ended. Secondly, the study tours, he considered, had a political 'taint' in that they were perceived by a range of actors in the new Labor Government to be a mechanism to recruit members to the National Party. Further, there was a perception of favouritism about who participated on these trips. Interviewee 682 (2003) commented that the former Coalition Minister for Agriculture, a member of the National Party, had acknowledged this 'perception' of favouritism in the rural media, when publicly defending the value of the study tours and who participated in them. According to Interviewee 682 (2003), this 'taint' was confirmed when the tours were cancelled as the only people who canvassed the incoming Minister for their reintroduction were also members of the National Party.

Thirdly, Interviewee 682 (2003) argued that a Labor Party election commitment allocated \$1 million for an initiative to stimulate rural leadership, which was considered to duplicate the purpose of the former study tours. Lastly, the rural leadership funds were transferred from the Department of Agriculture to the Department of Local Government and Regional Development. Collectively, these factors resulted in the end of Government activity in initiating study tours to North America about the NGC model.

Impact on Industry Understanding of the Agricultural Co-operative Model

The study tours of NGCs and the ensuing seminars developed farmer and government officer knowledge of a particular type of agricultural co-operative - the NGC model. Interview discussions with some actors indicated that their knowledge of the traditional agricultural co-operative model was imperfect. Therefore, the new knowledge about NGCs was developed in a vacuum of any independent knowledge of the traditional agricultural co-operative model in the first place. Even several years after the study tours and seminars, many participants were able to identify the shortcomings of traditional agricultural co-operatives, particularly by quoting the five problems that Cook raised. Unintentionally the integrity of the traditional agricultural co-operative model was undermined by the study tours and seminars and many participants were left with a view that the traditional agricultural co-operative model was flawed.

Conclusion

The role of study tours in the Western Australian agricultural co-operative story offers a number of insights. Study tours can be analysed from the perspective of institutional capital, in that they constitute a concrete example of a government agency committing resources to the development of agricultural co-operatives in this State. However, as discussed at length in Chapter Six, this cannot be interpreted as an overt public policy stance by the Department of Agriculture on agricultural co-operatives. Rather it reflects a well intentioned but *ad hoc* initiative promoted by certain individuals within the Minister's office or the Department of Agriculture. Additionally, the Department's initiative in planning study tours demonstrates a 'top down' approach to co-operative development, contrary to co-operative theory.

The comments from interviewees demonstrate that participation in the study tours or attending the seminars developed individuals' knowledge of the NGC model and its potential contribution to the economic viability of farm enterprises. Theoretically, this new knowledge could be transferred to the Western Australian agricultural industry and adapted to suit local conditions. However, specific NGC knowledge, in the absence of a strong understanding of the traditional agricultural

co-operative model, paradoxically diminished interviewee recognition of the intrinsic value of the traditional model to Western Australian agriculture.

Lastly, the study tours facilitated the development of networks among local farmers, agribusiness consultants, bankers, accountants, government officers and ministerial staff and their respective counterparts in the US and Canada. These networks represent potential opportunities to facilitate the establishment of agricultural co-operatives in Western Australia.

In conclusion, conversations with individuals who participated in the tours demonstrate that the study tours relating to the NGC model had a concrete value for the industry. A number of industry players and advisors were exposed to new situations and knowledge which could be potentially transferred back to the Western Australian agricultural industry. However, future study tours need to evolve from a farmer need for new knowledge, rather than as a result of a government department initiative. A strategy for exposing industry players to international agricultural co-operative initiatives needs to be developed via the agricultural industry itself, with the support of the agricultural co-operative sector and government agencies.

APPENDIX 4

Typology of Farmer and Agricultural Industry Actors towards the Agricultural Co-operative Model

Interviews conducted for this thesis revealed a diversity of views concerning the role and relevance of the agricultural co-operative model in the contemporary agricultural industry. The following table is an interpretation of interviewee attitudes about the agricultural co-operative model that classifies farmers into four identifiable segments. The segments are the Free Marketeers, the Agrarians, the Pragmatists and the Maximisers. The four segments represent a tension in world views within and between individual producers and the institutional actors linked to agriculture about the agricultural co-operative model. On balance, producers are more inclined to favour the co-operative structure than their external agricultural ‘advisors’.

This framework also applies to agricultural actors who support farmers in a professional capacity, such as agribusiness and farm management advisors, accountants, lawyers, financiers and academics. Classifying these actors into to these segments on the basis of their perception of the agricultural co-operative structure may provide an insight to determining appropriate professional development about the economic and social impacts of the agricultural co-operative model in the present day agricultural industry.

Typology of Agricultural Industry Actors towards the Agricultural Co-operative Model

| Segment | Position | Strategies |
|---------------------|---|--|
| The Free Marketeers | <p>This group tends to discount the co-operative model as out dated and old fashioned, with no place in a market driven industry. They view the collective approach of the co-operative structure as being at odds with individualism and as a protective structure to shield underperforming producers. They have rejected the model, as it is perceived as an instrument for 'failed' farmers who require support of the co-operative in order to stay in the industry. Co-operatives are viewed as a 'leg up' for non-competitive farmers.</p> <p>The sentiments expressed by this group are strongest among agribusiness management advisors and accountants, solicitors and bankers and one peak body agricultural industry association. Elements of this attitude are also evident among some farmers. Farmers with this attitude are heavily influenced by economic theory in their approach to farm business management. All actors in this group favour orthodox economics as the basis to the development of agricultural industry public policy.</p> | <p>This group is likely to be philosophically disinclined to listen to messages about the co-operative model. Therefore, agricultural co-operative messages will need to emphasise the economic benefits of the model and use economic language.</p> <p>Agricultural industry business management, legal and financial advisors need professional development on the merits of the agricultural co-operative model in the agricultural supply chain.</p> |
| The Agrarians | <p>This group comprises those who embrace the sentiments of agrarian socialism and therefore philosophically reject the tenets of neoliberalism. This group argues that the biophysical nature of agricultural production together with the contribution of the industry to urban Australia demands a dedicated agricultural industry public policy approach. The agricultural co-operative business structure is perceived by this group as consistent with their world view, as it embraces notions of collective behaviour to economic disadvantage. This group also favours the retention of SMAs. Consistent with this view is a sympathy and empathy with the non-economic and social values found within the co-operative structure.</p> <p>The interviewees who expressed this view tend to be older farmers. It was not a perspective expressed by non-farmers regardless of their connection to the agricultural industry or the co-operative structure</p> | <p>This group is likely to respond to messages about the ability of the co-operative model to help individual farmers, via collective behaviour, to counter exploitative behaviour of multinational companies. A key secondary message is the social benefits of the co-operative model to sustain rural communities.</p> |

| | | |
|-----------------|---|--|
| The Pragmatists | <p>This group comprises those who have embraced the rigours of a deregulated and internationally trade driven industry yet pragmatically recognise the benefits of a mutual self-help collective approach to exploit opportunities in a market driven economy. However, the pragmatic approach of this group does not extend to deep commitment to the underlying philosophy captured by the co-operative principles. The mechanics but not necessarily the philosophy of the co-operative structure tends to define this view.</p> <p>The sentiments expressed by this group are not necessarily new. It is likely that the agricultural co-operative model in Western Australia was always adopted by farmers as a pragmatic response to an economic problem without the embellishment of the co-operative philosophy. Therefore, the guidance to business strategy found in the co-operative values may be overlooked. Once the model no longer serves its purpose, members readily shift to another strategy to meet that need. There is no sentimental attachment to the model itself.</p> | <p>This group is likely to respond to messages about the economic benefits, at the farm input and the transport and marketing of commodities, of the co-operative business model. The co-operative values may not be meaningful to this group.</p> <p>The Board and management of agricultural co-operatives will benefit from professional development on the ability of the co-operative values to guide business strategy and build a competitive edge.</p> |
| The Maximisers | <p>This group is a subset of the Pragmatists group who incorporate the co-operative values into the collective structure to create an economically powerful business entity in a market economy. This group is also able to use the co-operative principles to carve a competitive advantage in the market place.</p> <p>The inaugural chair of UFCC, Mr Rod Madden, encapsulates this approach.</p> | <p>This group represent those who can maximise the benefits of the co-operative model to their situation. The co-operative principles are intrinsically valuable to this group as a basis to guide business strategy. This group provides role models to those investigating the co-operative model for their situation.</p> <p>To build awareness of these co-operatives, case studies are required as a promotional tool.</p> |

APPENDIX 5

New Generation Co-operatives

The hybrid co-operative model, the New Generation Co-operative (NGC), evolved during the 1990s in the Mid West of the United States. The traditional agricultural co-operative business model was modified to incorporate elements of the investor-owned firm (IOF) structure into the co-operative structure. NGCs also sought to address problems attributed to the traditional co-operative model, such as ‘free rider’; ‘horizon’; ‘portfolio’; ‘control’ and ‘influence costs’ Cook (1995).¹⁹⁷

In contrast to most traditional agricultural co-operatives, an NGC increases vertical integration by focusing its activities further along the supply chain. By adding value to their own product, the NGC enables farmers to gain larger earnings through selling processed products instead of an undifferentiated raw commodity. As a result, farmers can collectively achieve a level of market control that they could not harness as individuals (Stefanson et al., 1995).

The NGC model has a number of unique characteristics, although the model can be varied to suit the specific situation to which it is applied. Stefanson et al., (1995) identified two key features that distinguish the model from traditional co-operatives – delivery rights and restricted membership. To allocate the delivery rights and raise capital, shares are sold in the co-operative. Generally, the NGC share structure has three tiers of shares: membership, equity and preferred shares (Stefanson and Fulton, 1997). The NGC producers can only hold membership shares, and this category of share gives the producer the right to vote. Members also purchase equity shares. Equity shares are the mechanism for raising the significant capitalisation needed to construct the production or processing plants. The number of equity shares available in each NGC is calculated by dividing the cost to establish the plant with the amount of product required to enable it to operate at optimum capacity. When members have purchased all the equity shares, the membership is

¹⁹⁷ See Chapter Two for discussion of the five factors itemised by Cook (1995).

closed. Equity shares are also allocated delivery rights (a form of two-way contract) to the NGC: the producer commits to deliver product to the NGC as determined by the delivery right and the NGC is committed to taking delivery of the product. The delivery contract usually contains precise quality standards. Where a member is unable to deliver according to the delivery contract, the NGC may alternatively source the product and charge the cost to the member, thereby ensuring consistency in quality and quantity of product (Stefanson and Fulton, 1997). A unique feature of the equity shares is that they are tradeable and can appreciate (or depreciate) in value, resulting in strong member involvement and control and the opportunity for capital gain in shares. NGCs distribute profits to members in proportion to their patronage. Typically, the profit generated from added-value activity is returned annually to members as cash.

The third category of shares is preferred shares, although not all NGCs have this feature. These shares enable investment in the NGC from non-producers, such as local community members, thereby creating a vehicle for the community to support and benefit from the NGC. Preferred shares do not include voting rights, ensuring that producer-members retain control of the NGCs. To comply with the Capper-Volstead Act, dividends on preferred shares are capped at 8% (Volkin, 1995).

NGCs have also contributed other benefits at the local community level. Examples are economic diversification within the community by shifting into new value added products (Cook & Iliopoulos, 2000; Ergstrom, 1994), facilitating rural development by providing income and employment opportunities and stabilizing of the rural communities that foster them (Holmes et al., 2001; Stefanson et al., 1995). However, to enable the NGC to effectively provide these multiplier benefits at the community level, the economic success of the NGC must be its primary focus.

More than 200 NGCs were established during the 1990s in various parts of the United States of America and Canada (Fulton, 2001) although there is now some evidence of NGCs not succeeding in the longer term (Torgerson, 2001). While the success of the NGC model has created much excitement, leading to the term 'Co-op Fever' (Patrie, 1998), it is essential that a balanced assessment of the potential viability of the NGC model in Australia is made. The considerable body of literature about NGCs tends to be from an economic perspective; focusing on the model's

ability to overcome the economic shortcomings of traditional co-operatives (Cook, 1995), their organisational structure (Stefanson et al., 1995), their historical development and capacity to replicate the model in other locations (Bielik, 1999) and to a lesser extent, their contribution to rural economic development (Fulton and Hammond Ketilson, 1992; Holmes, Walzer, & Merrett, 2001; United States Department of Agriculture, 2002).

The predominantly economic approach to the analysis of NGCs is no doubt an evolution of the literature on the more traditional forms of agricultural co-operatives. Australian work on NGCs is limited, and again the work has a predominantly economic orientation (O'Connor and Thompson, 2001; Plunkett and Kingwell, 2001).

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